Press Release
ANJANI STEELS LIMITED
November 20, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	161.50	ACUITE BBB | Stable | Upgraded	-
Bank Loan Ratings	21.50	-	ACUITE A3+ | Upgraded
Total Outstanding Quantum (Rs. Cr)	183.00	-	-

Rating Rationale

Acuité has upgraded its long-term rating of **'ACUITE BBB' (read as ACUITE t riple B)** from **'ACUITE BBB-' (read as ACUITE t riple B minus)** and its short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs.183.00 Cr bank facilities of Anjani Steels Limited (ASL). The outlook is **'Stable'.**

Rationale for the rating

The rating upgrade takes into cognizance the augmentation in business risk profile of the company majorly driven by improvement in scale of operations. The revenue from operations of the company increased to Rs. 635.32 Cr. in FY2023 compared to Rs. 486.85 Cr. in FY2022 on account of increased volume sales which was further supported by increased in average realization per unit of TMT Bars and Wire rods during the period. Although the Company's operating profit margin have reduced to 6.06% as on March 31, 2023, but the Company is undertaking regular capex to bring about operating efficiencies in the plants to better absorb the fixed cost and bring down variable costs. The operating profit margin of the company witnessed improvement to 6.96% during H1FY2024. However, the sustainability of the profitability margins will remain a key rating monitorable factor going ahead.

The rating also factors the healthy financial position of the company characterized by a healthy net worth base, modest gearing levels and comfortable debt protection metrices. The rating also draws comfort from established track record and experience management with location advantage along with integrated nature of operations.

The rating takes into account the moderate working capital management marked by improving Gross Current Assets (GCA) to 133 days for FY2023 compared to 170 days for FY2022. The rating is further constrained by cyclical nature of the steel industry and the vulnerability of the margins to the volatility in commodity prices.

About the Company

In 1994, ASL was established by Mr. Shiv Dhari Yadav, Mr. Vijay Kumar Yadav and Mr. Girdhari Yadav as a private limited company. Subsequently, in 2007, it was transformed into a public limited company. The company's primary focus lies in the production of steel and alloy steel castings, ingots, billets, and various re-rolled sections, such as flats, angles, rounds, squares, hexagons, octagons, and rail joints, among others. ASL erected an integrated steel plant in Raigarh (Chhattisgarh), housing a sponge iron division, induction furnace division, and a 12 MW thermal power plant. As of March 31, 2023, the integrated steel plant boasts capacities of 108,000 MT for sponge iron manufacturing, 108,000 MT for the furnace division, and 125,000

MT for rolling mill production.

Unsupported Rating
Not Applicable

Analytical Approach
Acuité has considered the standalone business and financial risk profiles of ASL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations with locational advantage**

Established in 1994, Anjani Steels Limited is backed by the promotion of Mr. Shiv Dhari Yadav and Mr. Sanjay Kumar Yadav. Since 1996-97, the company has been actively involved in the steel industry, with its current product line-up consisting of billets used in the production of long products, specifically TMT bars. These TMT bars serve the increasing demands of various sectors, including the power sector, infrastructure construction, steel and cement plant construction, as well as commercial and residential housing, among others. ASL is under the guidance of Mr. Shiv Dhari Yadav and Mr. Sanjay Kumar Yadav, both possessing over two decades of experience in this field. Their extensive experience is evident in the strong relationships they have built with the company's customers and suppliers. The company's key customers do not account for a significant concentration of its revenues. The company has a locational advantage as the plants are located in the industrial area of Raigarh, Chattisgarh, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

Acuité believes that the experience management with established presence of its operations will continue to benefit the company over the medium term.

- **Healthy scale of operations driven by integrated operations**

The company boasts integrated operations covering the entire steel value chain, spanning from sponge iron to billets and TMT Bars. This integration affords the flexibility to both sell intermediate products and utilize them for in-house consumption. Notably, a significant portion of billets are consumed internally for TMT bar production, minimizing logistics costs. The company's facilities are complemented by captive power plants, enhancing cost efficiencies throughout the value chain.
In FY2023, the company achieved revenues of Rs. 635.32 Cr, a notable increase from the Rs. 486.85 Cr in FY2022 which was primarily driven by higher volume sales and an improved average realization per unit of TMT Bar and Wire Rods. Additionally, by September 2023, the company had already recorded revenues of Rs. 294.31 Cr.
The company's operating profit margin decreased to 6.06 percent in FY2023, compared to 6.79 percent in FY2022. The Company undertakes back –to-back orders without providing any credit to its customers or taking any credit from its suppliers. The necessity to offer discounts to customers for advance payments results in the absorption of these discounts affecting the overall margins. Also during Covid times, the Company had to provide some discounts to the customers to manage its working capital cycle, in past 2 years. Further, the company undertakes regular capex towards improving the manufacturing facilities a part of which has been taken in operational expenses about Rs. 1 Cr. During H1FY2024, the Company has been able to attain an operating profit margin of 6.96% brought about by reducing the charge time in heating in Steel Melting Shop facility and improved movements of work-in-progress stocks in the integrated facilities due to automising a part of the conveyor belts which was earlier done manually. Furthermore, the PAT margins also decreased to 1.46 percent in FY2023, down from 1.65 percent in FY2022, primarily due to deferred tax of earlier years. The ROCE levels stood at a comfortable level of about 10.24 per cent in FY2023 as against 8.49 per cent in FY2022.
Acuité believes that the company operations of the company will continue to remain healthy.

However, the sustainability of the profitability margins will continue to remain a key monitorable going ahead.

- **Healthy financial risk profile**

The company's financial risk profile is marked by healthy net worth, modest gearing and comfortable debt protection metrics. The tangible net worth of the company stood at Rs.142.26 Cr as on March 31, 2023 as compared to Rs.135.29 Cr as on March 31, 2022 due to accretion to reserves. The gearing of the company stood modest at 1.06 times as on 31 March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.28 times as on March 31, 2023. The debt protection matrices of the company remain comfortable marked by Interest coverage ratio (ICR) of 2.49 times and debt service coverage ratio (DSCR) of 1.39 times for FY2023. The net cash accruals to total debt (NCA/TD) stood healthy at 0.12 times in FY2023.

Going forward, Acuité believes that going forward the financial risk profile will continue to remain healthy over the medium term, supported by healthy internal accrual generation and absence of any debt funded capex plans.

Weaknesses

- **Moderate working capital management**

The company's working capital management is moderate in nature marked by improving Gross Current Assets (GCA) of 133 days for FY2023 as compared to 170 days for 2022. The improvement in GCA days is majorly on account of low receivables during the period. The debtors stood similar levels at 4 days in FY2023 and in FY2022. The company has minimal debtors since the payment from customers is received in advance. However, the inventory period remained high despite witnessing improvement to 119 days for FY2023 as compared to 147 days for FY2022.The inventory days is improving on account of improving operating efficiency in movement of WIP leading to lesser inventory stocking for the company. Moreover, the GCA days of the company has also emanates from the other current asset, which mainly consists of loans and advances. Against this, the company has minimal creditors, which stood at 5 days as on March 31, 2023. The company relies on its bank lines to meet its working capital requirement which utilised at ~83.65% over last 6 months ended Sep 2023. Acuité believes that the working capital operations of the company will remain at same level over the medium term.

- **Highly competitive industry and inherent cyclical patterns in the steel sector**

The steel rolling sector continues to lack organization and cohesion. The company faces strong competitive forces from both organized and unorganized participants, compounded by the cyclicality inherent in the steel industry. Moreover, the government's emphasis on steel-intensive sectors like railways and infrastructure increases vulnerability; any prolonged drop in demand would negatively affect steel companies' performance. Furthermore, the fluctuation in prices of raw materials and goods is considerably unstable. The business also contends with rivalry from more affordable imports from Indonesia and China. A substantial rise in imports could detrimentally affect earnings and quantities, making this a crucial aspect to watch.

Rating Sensitivities

- Improvement in its working capital management.
- Improvement in profitability levels thereby improving company's debt coverage indicators.
- Decline in average utilization levels of working capital limits.

All Covenants

None

Liquidity Position

Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.18.17 Cr as on March 31, 2023 as against long term debt repayment of Rs.8.63 Cr over the same period. Moreover, the current ratio stood at 1.62 times as on March 31, 2023. However, the fund based limit remained utilized at ~83.65 per cent over the six months ended September, 2023. Further, the company's working capital management is moderate in nature marked by improving Gross Current Assets (GCA) of 133 days for FY2023 as compared to 170 days for FY2022. Acuité believes that the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that ASL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	635.32	486.85
PAT	Rs. Cr.	9.30	8.03
PAT Margin	(%)	1.46	1.65
Total Debt/Tangible Net Worth	Times	1.06	1.18
PBDIT/Interest	Times	2.49	1.98

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector:- https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Sep 2022	Term Loan	Long Term	18.91	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	110.00	ACUITE BBB- | Stable (Reaffirmed)
	Bank Guarantee	Short Term	21.50	ACUITE A3 (Reaffirmed)
	Working Capital Term Loan	Long Term	24.65	ACUITE BBB- | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	7.94	ACUITE BBB- | Stable (Reaffirmed)
07 Jul 2021	Working Capital Term Loan	Long Term	7.94	ACUITE BBB- | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	24.65	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	110.00	ACUITE BBB- | Stable (Reaffirmed)
	Term Loan	Long Term	18.91	ACUITE BBB- | Stable (Reaffirmed)
	Bank Guarantee	Short Term	21.50	ACUITE A3 (Reaffirmed)
23 Jun 2021	Bank Guarantee	Short Term	21.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	82.50	ACUITE BBB- | Stable (Reaffirmed)
	Term Loan	Long Term	11.25	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	27.50	ACUITE BBB- | Stable (Reaffirmed)
	Term Loan	Long Term	13.25	ACUITE BBB- | Stable (Reaffirmed)
19 Mar 2020	Term Loan	Long Term	13.25	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	82.50	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	27.50	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	11.25	ACUITE BBB- | Stable (Assigned)
	Bank Guarantee	Short Term	21.50	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	21.50	ACUITE A3+ | Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	110.00	ACUITE BBB | Stable | Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	16.24	ACUITE BBB | Stable | Upgraded
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.91	ACUITE BBB | Stable | Upgraded
Punjab National Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	28.35	ACUITE BBB | Stable | Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.