

Press Release

API Ispat and Powertech Private Limited

Mar 19, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 85.50 Cr
Long Term Rating	ACUITE AA /Stable (Assigned)
Short Term Rating	ACUITE A1+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE AA**' (read as **ACUITE double A**) and short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) to the Rs. 85.50 crore bank facilities of API Ispat and Powertech Private Limited (APIPL). The outlook is '**Stable**'.

The rating takes into account the significant track record of the Real Group in the steel industry, integrated nature of operations providing cost efficiencies and scale along with a robust financial position with minimal consolidated debt levels. These strengths are partly offset by the cyclical nature of the steel industry and the vulnerability of margins to the increases in commodity prices.

API Ispat and Powertech Private Limited (APIPL) was acquired in 2014 and is a 94.97 percent subsidiary of Real Ispat and Power Limited (RIPL). The company is based in Chhattisgarh and is engaged in manufacturing of sponge iron, billets and thermo-mechanically treated (TMT) bars with an installed capacity of 210,000 MTPA, 250,000 MTPA and 245,000 MTPA respectively. The company also owns a 25 MW Power Plant. The company is managed by Mr Rajesh Agrawal, Mr Ramesh Agrawal and Mr. Umesh Agarwal.

About the Group

Incorporated in 2006, Real Ispat and Power Limited (RIPL) is a Chhattisgarh based company promoted by Mr. T.C. Agarwal and family. The company is engaged in manufacturing of sponge iron, billets, thermo-mechanically treated (TMT) bars and wire. The company has set up a manufacturing plant with an installed capacity of about 60,000 MT per annum (MTPA) for sponge iron, 492,000 MTPA for billets, 100,000 MTPA for Wire Drawing and 460,000 MTPA for TMT bars in Raipur, Chhattisgarh. The company has also installed an in-house power plant of 13 MW used for captive consumption. Real Ispat and Power Limited is the flagship company of the Real Group. The Real Group has total installed capacity of 360,000 MTPA for sponge iron, billets of 740,400 MTPA, TMT bars of 705,250 MTPA, steel wire of 245,250 MTPA along with captive power plants of 53 MW.

Ajay Steels Private Limited (ASPL) was formed in 1990 and is engaged in trading of domestic and imported coal. RIPL holds 19.19 percent stake in ASPL.

Real Power Private Limited (RPPL) was acquired in 2009 and is a wholly-owned subsidiary of RIPL. The entity operates a 8MW power plant and supplies to RIPL.

Shivalay Ispat and Power Private Limited (SIPL) was acquired in 2012 and is a wholly-owned subsidiary of RIPL. The company is engaged in manufacturing of sponge iron with an installed capacity of 90,000 MTPA. The company also owns a 7.5 MW Power Plant.

Analytical Approach

While arriving at the rating, Acuite has consolidated the business and financial risk profiles of Real Ispat & Power Limited (RIPL) with three subsidiaries, API Ispat and Powertech Private Limited (API), Shivalay Ispat and Power Private Limited (SIPL) and Real Power Private Limited (RPPL) along with group company, Ajay Steels Private Limited (ASPL) on account of common management, same line of business, significant operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

The group has a long track record of around three decades in the steel industry. The promoters started with trading of steel since 1990 under Ajay Steels Private Limited and ventured into manufacturing of TMT bars in 2002 through acquisition of Gourav Krishna Ispat Private Limited. Over the years, the group integrated its operation by adding facilities of sponge iron, billets, TMT bars, wire and captive power plant. The group has an established brand 'GK TMT' of TMT bar in Chhattisgarh. Currently, the company is managed by Mr Rajesh Agrawal, Mr Ramesh Agrawal and Mr. Umesh Agarwal, who possess business experience of around three decades in the steel industry. Along with them, second generation also looks after the day-to-day operations of the company. The company is ably supported by a strong and experienced line of mid-level managers. Acuite believes that the vast experience of the promoter and the long track record has enabled the company to establish strong market position in Chhattisgarh and build healthy relationship with customers as well as suppliers, resulting in continued order flow from customers.

• Healthy scale of operations and operating profitability

The group is operating at a healthy scale of operations as reflected by revenues of Rs.1757.84 crore in FY20 as against Rs.1919.57 crore in FY19. The revenues have declined by 8 percent in FY20 mainly due to lower volume growth in sponge iron coupled with decline in average realisations for TMT bars and sponge iron on the back of a muted demand in FY20. Consequently, revenues in API Ispat and Powertech Private Limited decreased to Rs. 759.93 crore in FY20 from Rs. 977.77 crore in FY2019.

Despite disruption in operations due to Covid, the group has achieved revenues of Rs. 850.64 crore till Sep,20 (provisional). Going forward, the group is expected to achieve revenues of around Rs.1800 crore on the back of significant improvement in steel demand and realisations from H2FY'21.

Despite a sharp decline in profitability in FY2020, the group has reported operating margins of ~ 9.96 per cent in FY2020 as compared to 18.26 per cent in FY2019. The group's profit margins fell mainly due to higher power cost as the group started producing more billets from FY'20. Moreover, there was significant decline in average realisations for steel products as compared to FY19 though raw material cost remained high. PAT margin stood healthy at 7.06 per cent in FY 2020 as compared to 12.04 per cent in the previous year. Consequently, the group's net cash accruals declined to around Rs. 155.90 crore in FY2020 from around Rs. 260.28 crore in the previous year, though the same remained healthy.

Going forward, overall power cost is likely to reduce once the group procures solar power (15-16 MW) going forward resulting in improved margin. Further, with strong revival in steel demand and sharp increase in realisations, margins are expected to improve in H2FY21. Also, Acuite believes that the operating margin is expected to remain healthy on account of healthy capacity utilization and higher operating efficiency due to integrated nature of operations.

• Robust financial risk profile

The financial risk profile of the group is marked by high net worth, comfortable gearing and healthy debt protection metrics. The net worth of the group stood at Rs. 811.75 Cr. as on 31 March, 2020 as against Rs.740.84 Cr. as on 31st March, 2019. The gearing (debt-equity) stood comfortable at 0.05 times in FY2020 as against 0.07 times in FY2019. The total debt of Rs. 36.96 Cr. as on March 31, 2020 consists of short term borrowings of Rs.36.24 Cr and unsecured loan of only Rs.0.72 Cr. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood strong at 33.07 times and 27.96 times in FY2020 as compared to 49.37 times and 12.65 times in FY2019 respectively. The NCA/TD stood at 4.22 times in FY2020. Acuite believes that the financial risk profile of the group will remain comfortable owing to healthy cash generation and no plans of any major debt funded capex in the medium term.

• Integrated steel player

The group is an integrated steel player that manufactures sponge iron, MS Billets, wire and TMT bars having a total installed capacity of 360,000 MTPA, 740,400 MTPA, 245,250 MTPA and 705,250 MTPA respectively. The group also owns 53-MW power plant. The company produces sponge iron which is captively consumed to manufacture billets, which in turn is captively used to produce TMT bars. Thus, Acuite believes that the vertical integration in operations will lend considerable operational efficiency going forward. Further, apart from supporting the operating profitability, the backward integration will also ensure smooth raw material availability.

- **Proximity to raw material sources**

The group's manufacturing facility is located in Raipur, Chhattisgarh which is in close proximity to various producers/dealers of its main raw materials (i.e. iron ore, coal and dolomite). Further, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. The group has linkages with National Mineral Development Corporation (NMDC) and procures iron ore entirely from it. The group also has coal linkages with South Eastern Coalfields which caters to about 50 percent of their coal requirement. For the balance, the group procures imported coal of better quality from Ajay Steels Private Limited (ASPL). Recently, the group has also entered into a lease agreement for three years with Nova Iron & Steel Limited to procure sponge iron and billets produced.

Thus, Acuite believes that the proximity of the plant to raw material sources result in lower logistic expenditure (both on transportation and storage), easy availability, and procurement of raw materials at effective prices.

- **Prudent working capital operations**

The group's working capital operations are efficiently managed marked by Gross Current Asset (GCA) of 102 days in FY2020 as against 83 days in FY2019. The rise in GCA days is mainly on account of high other current assets, which is majorly receivables from Government in FY20. Inventory days stood at 62 days in FY2020 as compared to 50 days in FY2019. The debtor days stood comfortable at 11 days for FY2020 against 14 days in FY19. Moreover, the group has utilised ~ 30 per cent of its working capital facilities during the twelve months ended Oct,2020. Acuite believes that the working capital of the group would be maintained at prudent levels over the medium term backed by efficient debtors collection policy and inventory management.

Weaknesses

- **Susceptibility of profitability to volatility in raw material prices**

The group's profitability is highly susceptible to volatility in prices of the key raw material, iron ore and coal. Iron ore prices have shot up significantly post May 2020, increasing the cost of production. Any sharp upward movement in the raw material prices and the inability of the group to pass on the increased cost of raw materials may result in dip in operating margins. Nevertheless, Acuite expects profitability to improve significantly in the second half of FY2021 given the improved realisations.

- **Presence in highly competitive and fragmented industry**

The group is operating in competitive and fragmented nature of industry especially in primarily steel producing industry. There are several players who are engaged in the sponge iron and billets manufacturing business in organized and unorganized sector. Moreover, the profit margins of the group remains exposed to inherent cyclicalities in the steel industry and volatility in raw material prices.

Rating Sensitivity

- Growth in scale of operations while improving operating profitability
- Efficient working capital management
- Sustenance of liquidity profile

Material Covenants

None

Liquidity Position: Strong

The group's liquidity is strong marked by net cash accruals of Rs. 155.90 crore in FY2020 against no long term debt obligations. The group is largely debt free. The cash accruals of the group are estimated to remain in the range of around Rs. 180 crore to Rs. 250 crore during FY2021-23 against no long term debt repayment obligations. Further, the company's operations are efficiently managed marked by Gross Current Asset (GCA) of 102 days in FY2020 as against 83 days in FY2019. As a result, the group has utilised ~ 30 per cent of its working capital facilities during the twelve months ended Oct,2020. The group maintains unencumbered cash and bank balances of Rs. 9.86 crore as on March 31, 2020. The company had not availed moratorium during Mar 2020 to Aug 2020 and has not applied for Covid loan. The current ratio of the group stood at 3.64 times as on March 31, 2020. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accruals against no major debt repayments over the medium term. Despite large capital expenditure plan of around Rs. 350 crore to be incurred by FY2024, the group's liquidity position is likely to remain largely unaffected as the group may not resort to substantial external debt.

Outlook: Stable

Acuite believes that the outlook of the group will remain stable over the medium term backed by its experienced management, integrated nature of operations, healthy scale of operations and robust financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position owing to higher working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1757.84	1919.57
PAT	Rs. Cr.	124.16	231.20
PAT Margin	(%)	7.06	12.04
Total Debt/Tangible Net Worth	Times	0.05	0.07
PBDIT/Interest	Times	33.07	49.37

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE AA/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE AA/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE AA/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A1+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:

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