

Press Release

API Ispat and Powertech Private Limited

June 09, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.50	ACUITE AA Stable Reaffirmed	-
Bank Loan Ratings	45.00	-	ACUITE A1+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	85.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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 Cr bank facilities of API Ispat and Powertech Private Limited (AIPL). The outlook remains '**Stable**'.

The rating reaffirmation takes into account the significant track record of the Real Group in the steel industry, its integrated nature of operations leading to a favourable cost structure and the increased scale of operations along with a robust financial risk position. The group also has a strong liquidity position well supported by minimal debt levels. These strengths are partially offset by the cyclical nature of the steel industry and the vulnerability of operating margins to the increases in commodity prices.

About Company

API Ispat and Powertech Private Limited (AIPL) 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 and wires with an installed capacity of 210,000 MTPA, 248,400 MTPA, 345,250 MTPA and 145,250 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 & Power Limited (RIPL) is a Chhattisgarh based company promoted by Mr. T.C. Agarwal and family and is the flagship company of the Real Group. RIPL has its facilities at Borjhara in Raipur, Chhattisgarh for manufacturing sponge iron (60,000 tpa), mild steel billet (400,000 tpa), thermo-mechanically treated (TMT) bar/wire rod (400,000 tpa) and wire (100,000 tpa), galvanized (GI) wire (25,000 tpa). In addition, the company has a captive power plant of 13 megawatt (MW). In December 2021, RIPL sold its plant at Urla in

Raipur with billet and rolling mill capacities of 60,000 tpa each.

Incorporated in 1990, Ajay Steels Private Limited (ASPL) is a part of the Chhattisgarh-based Real Group. ASPL was previously involved in steel trading. However, the same was discontinued and the company started trading in coal from FY2019. It mainly imports non-coking coal from South Africa to fulfil the Group companies' requirements of imported non-coking coal, and to sell coal to external buyers. RIPL holds 19.19 percent stake in ASPL. Directors of ASPL are Mr. Ramesh Agrawal and Mr. Ritesh Jindal.

Shivalay Ispat & Power Pvt Ltd (SIPL), was incorporated in 2004, to manufacture sponge iron with an installed capacity of 90,000 MTPA and captive power plant (CPP-WHRB) of 7.5 MW at Raipur, Chhattisgarh. Later in August 2012, SIPL was acquired as a wholly-owned subsidiary of RIPL, as part of backward integration plan of the Real Group. Directors of Shivalay Ispat and Power Private Limited are Mr. Ritesh Jindal, Mr. Shivkumar Yadav, Mr. Shiv Kumar Agrawal and Mr. Ramesh Agrawal.

Real Power Private Limited (RPPL; name changed to Seeta Energen Private Limited), was acquired in 2009 and is a wholly-owned subsidiary of RIPL. The entity operated 8MW power plant and supplied to RIPL. RPPL ceases to be a part of the Real Group as it was divested by the group in July 2021.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profiles of Real Ispat & Power Limited (RIPL) with three subsidiaries, API Ispat and Powertech Private Limited (AIPL), Shivalay Ispat and Power Private Limited (SIPL) and Real Power Private Limited (RPPL) and group company, Ajay Steels Private Limited (ASPL) on account of common management, same line of business, operational and financial linkages to arrive at the rating. However, Real Power Private Limited (RPPL; name changed to Seeta Energen Private Limited), erstwhile wholly-owned subsidiary of RIPL, ceases to be a part of the Real Group as it was divested by the group in July 2021. However, the same is unlikely to materially impact the group's overall credit profile.

Key Rating Drivers

Strengths

Experienced management and long track record of the group in steel sector

The group has a long track record of around three decades in the steel manufacturing 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 the acquisition of Gourav Krishna Ispat Private Limited. The Group has been successful in turning around loss making companies through inorganic and brownfield expansion in a very short time frame. Currently, the group 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, supported by second generation directors. Acuité believes that the vast experience of the promoter and the long track record has enabled the group to establish strong market position in Chhattisgarh and build healthy acceptability of its brand 'GK TMT' among large institutional clients as well as retail consumers.

Integrated steel player along with locational advantage

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, 648,400 mtpa, 245,250 mtpa and 745,250 mtpa respectively. The group also has a 45.5 MW power plant for captive consumption. The units are located in proximity to the sources of key raw materials, iron ore and coal, leading to relatively lower landed cost. Real Group has linkages with the National

Mineral Development Corporation (NMDC) and the South Eastern Coalfields Limited (SECL) for procurement of iron ore and coal, respectively. In addition, a significant portion of the total requirement of non-coking coal is procured from Ajay Steels, which is involved in trading of imported coal. Thus, Acuité 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.

High scale and profitability levels driven by improved price realisation

Despite supply chain challenges and significant surge in input prices, the group is expected to book revenues of around Rs.3200 Cr in FY22 (prov.) as compared to Rs.2223 Cr in FY21, thereby registering a y-o-y growth of around 44 per cent in FY22 and 26.48 per cent in the previous year. The increase in revenue is on account of improvement in price realisation of the products in FY21 and FY22 and healthy capacity utilization of products with increasing TMT production.

However, due to huge surge in input prices like iron ore, coal, fuel etc., the operating margin and PAT margin of the group is expected to decrease to around 9.19 per cent and 6.57 per cent respectively in FY22, from 10.88 per cent and 7.70 per cent in the previous period. Nevertheless, the absolute EBITDA and PAT are expected to increase by Rs.48 Cr and Rs.39 Cr in FY22, driven by high turnover levels. Acuité believes, increase in the cost of production is likely to limit the margin expansion of the secondary steel producers, including the Real Group, despite a buoyancy in price realization of products.

Robust financial risk profile

The group's robust financial risk profile is marked by strong net worth base, low gearing and robust debt protection metrics. The tangible net worth of the group is expected to improve to Rs.1196 Cr as on 31st March, 2022 from Rs.985 Cr as on 31st March, 2021 due to healthy accretion to reserves. Gearing of the group is expected to remain at comfortable levels at around 0.07 times as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) is expected to reduce to 0.21 times as on March 31, 2022 as against 0.25 times as on March 31, 2021. The strong debt protection metrics of the group is marked by Interest Coverage Ratio at 56.65 times and Debt Service Coverage Ratio (DSCR) at 48.00 times as on March 31, 2021. NCA/TD stood at comfortable 2.83 times in FY2021. Going forward, Acuité believes that the financial risk profile of the group will remain at similar levels backed by steady accruals and no major debt funded capex plans.

Prudent working capital operations

The group's working capital operations are efficiently managed marked by Gross Current Asset (GCA) of 108 days as on 31st March, 2021 as against 97 days in the previous year, but the same is expected to decrease to 101 days as on 31st March, 2022. The rise in GCA days is mainly on account of high advances to suppliers for smooth functioning of operations in the unit. Inventory days stood efficient at 51 days as on 31st March, 2021 and is expected to remain at similar levels in FY22. The debtor days stood efficient at 22 days as on 31st March, 2021 but the same is expected to increase marginally in FY22. Acuité believes that the working capital of the group would be maintained at prudent levels over the medium term backed by efficient collection mechanism and inventory management.

Weaknesses

Susceptibility of profitability to volatility in raw material prices, fragmented industry

The group's profitability is highly susceptible to volatility in prices of the key raw material. 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 further dip in operating margins. The group is operating in a 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 cyclicality in the steel industry and volatility in raw material prices.

Project risks associated with backward integration capex plan

The group has planned a greenfield capex of around Rs.350 Cr for setting up an iron ore pellet capacity of 0.8 mtpa, sponge iron capacity of 0.2 mtpa, ferro alloys of 9 MVA and a captive power plant of 20 MW in Bhatapara, Chhattisgarh on a land already owned by RIPL. The implementation of the project was delayed by 1 year and is now expected to commence from Sept, 2022. However, the Group has planned to execute the project in phases. Initially, only the pellet plant (estimated cost of around Rs.175 Cr) will be set up as a brownfield expansion, to be financed through a term loan of around Rs.100 Cr and balance through internal accruals. While there is project execution risk and adverse impact on return metrics until COD, the capex is unlikely to have any material impact on the Group's capital structure and liquidity, considering its high net worth and strong cash accruals. The capex is expected to increase the cost competitiveness of the group's end products. Acuité believes that the Group's ability to execute the project within the budgeted cost and time will remain key monitorable.

ESG Factors Relevant for Rating

The manufacture of iron & steel products has a substantial environmental impact and is extremely power-intensive. Parameters such as inclusion of clean, green technologies in manufacturing, material, energy and water efficiency, proper waste disposal are of key importance to the industry. Some significant social issues include employment quality, employee safety, product safety, product quality and initiatives for community support and development. The governance factors for the sector include management compensation, board independence, diversity and compensation apart from the role of the audit committee.

The group is committed to maintain the highest standards of Corporate Governance and adhere to the corporate governance requirements set out by SEBI. RIPL's Board of Directors (BoD) comprises of 8 directors out of which includes 2 are independent directors, including 1 woman, reflecting moderate diversity. There is one independent director each in the Audit committee, Nomination committee and Remuneration committee respectively. The group has adequate policies on whistleblower protection programme, related party transactions and ethical business practices. The group has a dedicated CSR Committee and it is involved in several philanthropic activities.

Real Group strives to ensure employee skill development through Real Skill Academy, a vocational training center with an aim to provide free training to around 500 people and community development through plantation drives, sanitation care, sponsoring medical camps and more. The group has established a trust 'Real Care Foundation', in which issues like education, medical care, environment, sanitation, women empowerment, social upliftment of backward sections of the society, and provision of clean drinking water are areas of priority.

Rating Sensitivities

- Any unanticipated sizeable debt funded capital expenditure
- Sustenance in the scale of operations while improving its profitability margins
- Deterioration in the working capital management

Material Covenants

None

Liquidity Position: Strong

The group's liquidity is strong marked by healthy expected net cash accruals of around Rs.250 Cr in FY2022 against no long term debt obligations. The group is largely debt free. Further, the group's working capital operations are efficiently managed and hence, the fund based limit remained utilised at only 25 per cent over the seven months ended Apr, 2022. The group is

expected to maintain unencumbered cash and bank balances of Rs.25 Cr as on 31st March, 2022. The current ratio of the group is expected to remain strong at around 3.50 times in FY22 as against 2.85 times in FY21. Acuité believes that the liquidity of the group is likely to remain strong over the medium term on account of enhanced cash accruals. Despite large capital expenditure plan of around Rs.350 Cr to be incurred in the near term, the group's liquidity position is likely to remain unaffected as the group may not resort to substantial external debt on the back of sufficient internal accruals.

Outlook: Stable

Acuité 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 group registers higher than expected growth in revenues while improving its operating margins. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position owing to a large debt funded capital expenditure plan.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	2223.27	1757.84
PAT	Rs. Cr.	171.21	124.16
PAT Margin	(%)	7.70	7.06
Total Debt/Tangible Net Worth	Times	0.07	0.05
PBDIT/Interest	Times	56.65	33.07

About the Rated Entity - Key Financials (Standalone)

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	772.12	759.93
PAT	Rs. Cr.	85.20	56.70
PAT Margin	(%)	11.03	7.46
Total Debt/Tangible Net Worth	Times	0.10	0.00
PBDIT/Interest	Times	64.30	40.90

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

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

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Mar 2021	Cash Credit	Long Term	0.50	ACUITE AA Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE AA Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A1+ (Assigned)
	Cash Credit	Long Term	25.00	ACUITE AA Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE AA Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE AA Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE AA Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A1+ Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1+ Reaffirmed

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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.

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