Press Release
API Ispat and Powertech Private Limited
November 27, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	55.50	ACUITE AA | Stable | Reaffirmed	-
Bank Loan Ratings	30.00	-	ACUITE A1+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	85.50	-	-

Rating Rationale

Acuité 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'.**

Rationale for reaffirmation
The rating reaffirmation is on account of the sustenance of the strong business risk profile of the company as demonstrated by improving revenues, range bound operating margins and healthy financial risk profile. The Group recorded an operating income of Rs.3827.66 Cr in FY2023 (Prov.) as against Rs.3385.34 Cr. in FY2022 and Rs. 2287.20 Cr. in FY2021 while the operating margins ranged between 7.74% to 10.58% during the same period. The rating also draws comfort from the established track record of operations of the group, , its integrated nature of operations, experienced management, and 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 noncoking coal from South Africa to fulfil the Group companies' requirements of imported noncoking 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, SIPPL 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.

Unsupported Rating

Not Applicable

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 t rack record of operations of the group in steel sector

The group has a long track record of operations 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. 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.

Sustained operating performance

The revenue of the group improved to Rs. 3827.66 Cr. in FY2023(prov.) from Rs. 3385.34 Cr. in FY2022 registering a growth of 13% y-oy basis. The operating profit margin of the group improved to 9.91% in FY2023(prov.) as against 7.74% in FY2022. The increase in the revenue of the group is on account of the increase in the prices of the products, which has also resulted in better realisation leading to increase in operating margins.

Healthy Financial Risk Profile

The group's robust financial risk profile is marked by healthy net worth base, low gearing and robust debt protection metrics. The tangible net worth of the group improved to Rs.1406.38 Cr as on 31st March, 2023(prov.) as against Rs.1161.25 Cr as on 31st March, 2022 due to healthy accretion to reserves. The group follows a conservative leverage policy as reflected in its peak gearing of 0.11 times as on March 31, 2023(prov.) and as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.28 times as on March 31, 2023(prov.) as against 0.40 times as on March 31, 2022. The debt protection metrics of the group continued to remain strong marked by Interest Coverage Ratio at 90.86 times and Debt Service Coverage Ratio (DSCR) at 64.21 times as on March 31, 2023(prov.). The NCA/TD stood at comfortable 1.78 times in FY2023(prov.) Acuité believes that the financial risk profile of the group is expected to remain at similar levels backed by steady accruals and no major debt funded capex plans.

Efficient Working Capital Management

The group's working capital operations are efficiently managed marked by low Gross Current Asset (GCA) days and low working capital utilisation. The GCA days stood at 85 days as on March 31, 2023(prov.) as against 106 days as on 31st March 2022. The inventory days stood efficient at 36 days as on 31st March, 2023(prov.) as against 47 days as on 31st March 2022. The debtor days stood efficient at 20 days as on 31st March, 2023(prov.) as against 31 days as on 31st March 2022. The average utilisation of the fund-based limit is lower and stood at 13.86% and of non-fund based limits stood at 27.66% for twelve months ended as on April 2023. Acuité believes that the working capital of the group would be managed efficiently 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 remain exposed to inherent cyclicality in the steel industry and volatility in raw material prices

Timely completion of the backward integration capex plan

The group has planned a greenfield capex of around Rs.600 Cr. for setting up an iron ore pellet capacity of 0.8 million MTPA, sponge iron capacity of 0.76 million MTPA, ferro alloys of 9 MVA and a captive power plant of 20 MW in Bhatapara, Chhattisgarh on a land already owned by RIPL. While there is project execution risk, 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.

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

All Covenants

Not Applicable

Liquidity Position
Strong

The group's liquidity is strong marked by healthy net cash accruals of around Rs.283.02 Cr in FY2023 against no long term debt obligations. Going ahead, the group is expected to generate net cash accrual in the range of Rs. 315.81 Cr to Rs. 333.03 Cr. The group is largely debt free. Further, the group's working capital operations are efficiently managed and the average utilisation of the fund-based limit is lower and stood at 13.86% and of non-fund based limits stood at 27.66% for twelve months ended as on April 2023. The unencumbered cash and bank balances of the group stood at Rs.11.02 Cr as on 31st March, 2023(prov.). The current ratio of the group stood strong at around 3.18 times in FY2023(prov.) as against 2.40 times in FY2022.

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.600 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 availing 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 in 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 capital expenditure plan.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	3827.66	3385.34
PAT	Rs. Cr.	245.72	224.33
PAT Margin	(%)	6.42	6.63
Total Debt/Tangible Net Worth	Times	0.11	0.11
PBDIT/Interest	Times	90.86	50.46

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

Not applicable

Any Other Information

None

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

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. -or 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
07 Sep 2023	Letter of Credit	Short Term	5.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE AA | Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE AA | Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE AA | Stable (Reaffirmed)
09 Jun 2022	Cash Credit	Long Term	0.50	ACUITE AA | Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE AA | Stable (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE AA | Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A1+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A1+ (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE AA | Stable | Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE AA | Stable | Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE AA | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	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.