

Press Release

ASR Met Tech Private Limited

March 25, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 crore
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 20.00 crore bank facilities of ASR Met Tech Private Limited (AMPL). The outlook is '**Stable**'.

About Company

ASR Met Tech Pvt. Ltd. (AMPL) established in 2013, is an Ahmedabad based manufacturing company for stainless steel, seamless pipes and tubes. The company is promoted by ASR Group, which has established presence in steel industry. The day to day operations are managed by Mr. Arun Aggarwal and Mr. Ajatshatru Aggarwal. The commercial production of seamless pipe and tubes has started from April 2016 onwards. The company has production capacity of 6000 MTPA and testing facilities at Ahmedabad. The product portfolio includes pipes having an outer diameter (OD) ranging from 6 mm to 114 mm and thickness of 0.5 mm to 6 mm.

About Group

ASR group has strong presence in the steel industry through its various companies such as ASR Multimetals Private Limited engaged in manufacturing of Sponge Iron, TMT bars, Structural steel products etc. Apart from the steel industry, the group is also involved in importing and trading of various agro products. The group also has an established dealer's network in the domestic as well as international markets.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of AMPL to arrive at the rating.

Key Rating Drivers

Strengths

- Establish group presence and experienced management**

The company is promoted by ASR group, which has strong presence in the steel industry through its various companies such as ASR Multimetals Private Limited engaged in manufacturing of Sponge Iron, TMT bars, Structural steel products etc. Apart from the steel industry, the group is also involved in importing and trading of various agro products. The promoters Mr. Arun Aggarwal and Mr. Ajatshatru Aggarwal possess over a decade experience in the said line of business. The company is well supported by second line of management. The extensive experience of promoters have helped the company to build longstanding relationships with its customers and suppliers.

The operating income of AMPL, stood at Rs. 52.05 crore in FY2020 as against Rs. 56.70 crore in FY2019. The company has booked revenue of Rs 30.13 crores for 11MFY2021. The operating income in current fiscal was impacted due to pandemic and national wide lockdown. Further, the company sells 90 to 95 percent of products in export markets. However, the company is planning to focus more on domestic market from FY2022 onwards. Acuité believes that the industry experience and domain knowledge of the management, long standing relationship with its clientele are expected to support AMPL's business risk profile over near to medium term.

- **Healthy financial risk profile**

The financial risk profile of AMPL stood comfortable marked by tangible net worth of Rs. 29.09 crore as on March 31, 2020 as against Rs. 23.96 crores as on March 31, 2019. The net worth includes quasi capital of Rs. 16.18 crore as on March 31, 2020 subordinated with bank facility. The gearing levels of the company stood low at 0.01 times as on March 31, 2020 as against 0.20 times as on March 31, 2019, due to lower utilisation at end of the month. The debt of Rs. 0.40 crore, mainly consists of short term debt as on March 31, 2020. The healthy debt protection metrics are marked by higher Interest Coverage Ratio, which stood at 27.53 times as on March 31, 2020 as against 6.54 times as on March 31, 2019 due to lower reliance on external debt and lower interest outgo. The Debt Service Coverage Ratio (DSCR) of the company stands at 24.11 times for FY2020 as against 6.27 times as on FY2019. TOL/TNW stood low at 0.44 times in FY2020 as against 1.23 times in FY2019. Further, NCA/TD stood comfortable at 17.00 times for FY2020 as against 0.57 times for FY2019. Acuité believes that the financial risk profile is expected to remain at similar levels in the absence of any major debt funded capex in near to medium term.

- **Backward integration project to improve operation efficiency and mitigate supply risk**

The company is undertaking a backward integration project which includes setting up of piercing plant which will lead to change of raw material input, thereby improving operating efficiency and cost reduction. The project will cost around Rs.12.11 crores which will be funded by external debt of Rs.5.00 crores, promoter's fund of Rs.2.00 crores and rest through internal accruals. Currently, the company uses mother tubes (finished form) as raw material, which will be replaced by round bar. Thus, resulting in higher margins and reduction of imports which accounts for 90.00 percent in last three years ending FY2020. It will also mitigate supply risk as Mother tubes account for a significant portion of the raw material requirement and round bar is also available in domestic market. The projects financial closure has been achieved and expected to be completed in August 2021. However, expected improvement in scale of operations and operating profitability along with timely execution of project will remain key rating sensitivity factor.

Weaknesses

- **Working capital intensive nature of operations**

The company's operations are moderately working capital intensive in nature marked by Gross Current Asset (GCA) days of 130 days as on March 31, 2020 as against 186 days as on March 31, 2019. The receivable days stood at 39 days in FY2020 as against 73 days in FY2019. The inventory days stood high at 55 days in FY2020 as against 78 days in FY2019. The working capital cycle is dominated by higher inventory and receivables. The company provides credit to its customers which ranges from 30 -90 days. AMPL, maintains an average inventory of around 2-3 months of raw material which is required for smooth running of operations. The incremental net working capital requirements are partially managed by way of promoter unsecured loans and reliance on short term borrowings. Thus, resulting in moderate reliance on working capital borrowings which remained utilised at around 50 to 60 percent during last six month ending February 2021. Acuité believes with competitive nature of operations, company needs to maintain adequate inventory and offering credit keeps the operations working capital intensive and the management of working capital cycle would require to be monitored closely.

- **Highly competitive intensity, Margins are susceptible to volatility in raw material prices, and foreign exchange fluctuations**

AMPL faces stiff competition from other established domestic players and cheaper imports from China, resulting in pricing pressures. Furthermore, company's operations are vulnerable to cyclical business downturns in end-user industries, accentuating the risk of demand volatility. In view of muted realisations and weak macro-economic scenario, the top line of the company is estimated to register a de-growth in the current fiscal due to pandemic. Also, margins are exposed to variations in the prices of imported raw materials which constitutes 90 percent, thereby exposing it to foreign currency fluctuations. However, its established track record, quality certifications along with the order-backed nature of inventory and adequate forex cover mitigates such risks to a certain extent.

Liquidity Position: Adequate

Liquidity of AMPL is adequate marked by sufficient net cash accruals of Rs.0.10 -6.80 crore against no major repayment obligation through last three year ending FY2020. The cash accruals of the company are expected to remain on the same level with repayment obligations of Rs.2.50-3.50 over the near term on account of debt funded capital expenditure plans. The company had maintained unencumbered cash and bank balances of Rs. 4.05 crore as on March 31, 2020. The current ratio of the firm stood at 1.63 times as on March 31, 2020. The working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 130 days as on March 31, 2020 and 186 days as on March 31, 2019. The incremental net working capital requirements are partially managed by way of promoter unsecured loans and reliance on short term borrowings. Thus resulting in, moderate reliance on Working capital borrowings in the company remained utilised at around 50 to 60 percent during last six month ending February 2021. Acuité believes that the liquidity of the AMPL is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation and moderate utilisation of its working capital limits.

Rating Sensitivities

- Significant decline in operating performance and deterioration in overall financial risk profile
- Any further unexpected capital expenditure leading to material increase in gearing levels
- Elongation in working capital cycle and weakening of liquidity profile

Outlook: Stable

Acuité believes that AMPL will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the AMPL's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY2020(Actual)	FY2019 (Actual)
Operating Income	Rs. Cr.	52.05	56.70
PAT	Rs. Cr.	5.13	1.50
PAT Margin	(%)	9.86	2.64
Total Debt/Tangible Net Worth	Times	0.01	0.20
PBDIT/Interest	Times	27.53	6.54

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto 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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)

* Sub Limit - Overdraft/Cash credit of Rs.4.00 crores, ILC/FLC of Rs.8.00 crores and Bank guarantee of Rs. 4.00 crores.

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About Acuité Ratings & Research:

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