

Press Release

Araanya Mines Private Limited

April 01, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 54.78 Cr.
Short Term Rating	ACUITÉ A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned a Short term rating of '**ACUITE A2+** (**read as ACUITE A two plus**) on the Rs 54.78 Cr bank facilities of Araanya Mines Private Limited (AMPL). The outlook is '**Stable**'.

The rating factors in the healthy business profile of the group along with strong financial risk profile. The group is likely to sustain a healthy scale of operation in medium term backed by an outstanding order book of Rs 803 Cr from Mahanadi Coalfields Limited (MCL). The group has a conservative capital structure marked by low gearing and strong coverage ratios. In addition, the profit margin of the group is expected to improve over the medium because of captive consumption of coal as allotted coal mine in Jharkhand is expected to be operational by December 2021.

Maa Chhinnmasta Cement and Ispat Private Limited (MCCIPL) was acquired by Rungta Group in 2010. The company is engaged in the manufacturing of sponge iron with an installed capacity of 90,000 MTPA.

Aloke Steel Industries Private Limited (ASIPL) was incorporated by Jharkhand based Rungta family in 2004. The company is engaged in the production of sponge iron with an installed capacity of 120,000 MTPA.

Jharkhand Ispat Private Limited (JIPL) was incorporated by the same promoters in 2004. The company is engaged in the production of sponge iron and billet. The company has installed capacity of 120,000 MT per annum for sponge iron and 72,000 MT per annum for MS billet. All the above manufacturing units are located at Ramgarh, Jharkhand.

Araanya Mines Private Limited (AMPL) was incorporated by ASIPL and MCCIPL. In March 2015, the company was allotted a coal mine that has extractable reserves of 10 Million MT out of which 0.20 million MT of coal can be extracted annually. The extracted coal will be used for captive consumption in the group companies. Currently, the mine is under development and is expected to be operational from December 2021. It is located at Jharkhand.

VFPL ASIPL JV Company (JV) is a Joint venture between Vikas Fasteners Private Limited and ASIPL. The entity was formed in 2011. The JV executes orders from Mahanadi Coalfields Limited (MCL) related to extraction, loading and transportation of coal. The company's operations are in Orissa.

Analytical Approach

Acuité has taken a consolidated view of Aloke Steel Industries Private Limited (ASIPL), Jharkhand Ispat Private Limited (JIPL), Araanya Mines Private Limited (AMPL), Maa Chhinnmasta Cement and Ispat Private Limited (MCCIPL) and VFPL ASIPL JV Company (JV), which taken together is referred herein as the Rungta Group. All 5 companies have common management with ASIPL, JIPL and MCCIPL in a similar line of business. ASIPL and MCCIPL hold 100 percent stake in AMPL. In addition, ASIPL and MCCIPL have extended corporate guarantees to AMPL. ASIPL is a stakeholder and guarantor of VFPL ASIPL JV Company. The group herein is referred to as Rungta Group. Extent of consolidation: Full

Key Rating Drivers

Strengths

Experienced management with steady growth visibility

The Rungta group is promoted by the Jharkhand based Rungta family. The group is headed by Mr. RC Rungta, who has more than three decades of experience in the steel and mining business through other group concerns. The group has diversified interests in various sectors such as steel, mining, cement and real estate, among others. ASIPL, JIPL and MCCIP are engaged in manufacturing intermediate steel products such as sponge iron and billet. The VFPL ASIPL JV is executing orders related to extraction and transportation of coal from various coal mines of MCL. The current order book of Rs 803 Cr provides medium term revenue visibility for the group. The scale of operation of the group stood healthy as reflected from its revenue of Rs 841.11 Cr in FY20 as against Rs 829.92 Cr in FY19. The improvement is driven by sales volume in sponge iron and healthy execution of orders. In FY21, the scale of operation will remain at a similar level as the group has registered revenue of Rs 617 Cr till December 2020 (Provisional). Acuité believes the scale of operation will improve in medium term backed by the healthy order book for coal extraction in ASIPL JV.

Strong financial risk profile

The financial risk profile of the group is marked by healthy net worth, comfortable gearing and strong debt protection metrics. The net worth of the group stood at Rs.312.92 Cr in FY2020 as compared to Rs. 300.68 Cr in FY2019. The gearing of the group rose moderately to 0.54 times as on March 31, 2020 as compared to 0.42 times as on March 31, 2019 due to its debt-led capital expenditure plan. The capital expenditure was related to expansion of the JV's fleet size. The total debt of Rs.170.04 Cr in FY2020 consists of long-term debt of Rs.98.17Cr, short-term loan of Rs. 46.82 Cr and unsecured loan of Rs 25.05 Cr. TOL/TNW stood at 1.00 times in FY20 as against 0.93 times in FY19. Interest coverage ratio (ICR) stood strong at 4.59 times in FY2020 as against 4.19 times in FY 2019. The debt service coverage ratio (DSCR) also stood comfortable at 3.96 times in FY2020 as against 3.91 times in FY2019. The net cash accruals against total debt (NCA/TD) stood at 0.30 times in FY2020 as compared to 0.40 times in previous year. Acuité believes the financial risk profile of the group will remain healthy over the medium term backed by low dependence on external debt.

Steady profitability margin

The profit margin of the group has been consistent as reflected from its EBITDA margin of 7.04 percent in FY20 as against 6.37 percent in FY19. The improvement in the margin is driven by rise in revenue from mining business where margins are comparatively higher in comparison to steel business. The profitability margin is expected to remain comfortable in FY21 as the group has posted EBITDA margin of about 7.7 percent during 9MFY21 (Provisional). Moreover, the allocated coal mine is expected to be operational from December 2021. This will help to reduce raw material costs. Acuité believes the profitability will improve over the medium term backed by captive consumption of coal.

Weaknesses

Cyclical nature of the industry

The group's performance remains vulnerable to cyclical in the steel sector as demand for steel depends on performance of end user segments such as construction and real estate. Indian steel sector is highly competitive due to presence of large number of players. The operating margin of the group is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods.

Rating Sensitivity

- Substantial improvement in the profitability margin
- Any unexpected capital expenditure which leads to materially higher gearing levels

Material Covenant

None

Liquidity Profile: Adequate

The group has adequate liquidity, as reflected from the healthy net cash accrual of Rs. 51.55 Cr during FY20 as against current long term loan maturity of 11.43 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 52-Rs70 Cr as against increased term loan repayments of around Rs.24.00 Cr from FY21-FY23. The current ratio stood comfortable at 2.08 times during FY20. The working capital limits were utilized at around 77 percent during the past 10 months ended January 2021. The cash & bank balance stood at 2.88 Cr as on 31.03.2020. However, working capital requirement of the group is relatively high as reflected from GCA days of 164 days as on 31 March 2020. The company has maintained positive cash flow from operation in FY20. Acuite believes the liquidity position of the group will remain adequate backed by steady cash flow and accruals over the medium term.

About the Rated Entity - Key Financials

Standalone

	Unit	FY20(Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	0.0	0.01
PAT	Rs. Cr.	0.18	0.45
PAT Margin	(%)	11,271.96	5046.00
Total Debt/Tangible Net Worth	Times	3.43	3.31
PBDIT/Interest	Times	2.17	3.66

Consolidated

	Unit	FY20(Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	841.11	829.92
PAT	Rs. Cr.	12.70	15.60
PAT Margin	(%)	1.51	1.88
Total Debt/Tangible Net Worth	Times	0.54	0.42
PBDIT/Interest	Times	4.59	4.19

Status of Noncooperation from other CRA (Not Applicable)

None

Any other information

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)

NA

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	54.78	ACUITE A2+ (Assigned)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Tel: 033-66201203 pooja.ghosh@acuite.in Tonoy Banerjee Rating Analyst Tel: 033-66201206 tonoy.banerjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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