

## Press Release

Araanya Mines Private Limited

August 30, 2022

## Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	54.78	-	ACUITE A2+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	54.78	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed 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 ratings reflect sustained revenue growth along with strong financial risk profile. The revenue growth is driven by substantial rise in average realization of steel products due to rising demand from end user industries. Moreover the group has healthy order book which provides revenue visibility for near to medium term. The rating also factors in the group's strong financial risk profile marked by sound net worth and conservative capital structure. However, the ratings are constrained by the group's exposure to cyclical nature of the steel industry. Ratings also consider the delay in commencement of operation in allotted coal mine. In addition, the group has undertaken a debt funded capital expenditure programme which is expected to lead to a slight moderation in their debt coverage and leverage indicators in the near term.

## About the Company

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. The allotted coal mine is expected to be operational from December 2022.

## About the Group

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.

VFPL ASIPL JV Company (JV) is a Joint venture between Vikas Fasteners Private Limited and ASIPL. The JV executes orders from Mahanadi Coalfields Limited (MCL) related to extraction, loading and transportation of coal.

## **Analytical Approach**

Acuité has taken a consolidated view of Alope Steel Industries Private Limited (ASIPL), Jharkhand Ispat Private Limited (JIPL), Araanya Mines Private Limited (AMPL), Maa Chhinnmastika 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 sustained revenue growth**

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 MCCIPL 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 456 Cr provides near to medium term revenue visibility for the group. The allotted coal block in AMPL is expected to be operational by December 2022 as against initial COD of December 2021 due to delay in getting requisite approvals from government authorities. The allotted coal block is likely to mitigate supply risk partially.

In FY22, the group has undertaken a forward integration capex plan of Rs 160 Cr in MCCIPL which is funded through a mix of debt and equity in 2:1 ratio. The project includes addition of billet unit with installed capacity of 72000 TPA, rolling mill of 67500 TPA and 15 MW captive power plant. The project is expected to be complete by December 2022. The ongoing project will improve group operational efficiencies.

The scale of operation has witnessed sustained growth as revenue of the group stood at Rs 1054 Cr in FY22(Provisional) as against Rs 916.59 Cr in FY21 and Rs 843.90 Cr in FY20. The improvement is driven by average realization of intermediate product and healthy execution of orders. 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, low gearing and strong debt protection metrics. The net worth of the group stood at Rs.365.77 Cr in FY2022(Provisional) as compared to Rs. 343.29 Cr in FY2021. The gearing of the group rose moderately to 0.50 times as on March 31, 2022(Provisional) as compared to 0.43 times as on March 31, 2021 due to ongoing capex plan. The group had witnessed rise in debt level to Rs 184 Cr in FY22(Provisional) against Rs 148 Cr in FY21. TOL/TNW stood at 0.89 times in FY22(Provisional) as against 0.88 times in FY21. Interest coverage ratio (ICR) stood strong at 5.49 times in FY2022(Provisional) as against 5.57 times in FY 2021. The debt service coverage ratio (DSCR) also stood comfortable at 2.46 times in FY2022(Provisional) as against 2.77 times in FY2021. The net cash accruals against total debt (NCA/TD) stood at 0.33 times in FY2022(Provisional) as compared to 0.37 times in previous year. Acuité believes the financial risk profile of the group will remain healthy over the medium term.

## Steady profitability margin

The profit margin stood steady both at the operating and net level. The operating margin stood at 7.44 percent in FY22(Provisional) as against 7.42 percent in FY21. The profit after tax (PAT) margins of the company stood at 2.12 percent in FY'22(Provisional) as against 1.79 percent in the preceding year. The allocated coal mine is expected to be operational from December 2022. Further with implementation of forward integration project, captive consumption of intermediate goods and power will increase leading to decline in raw material cost. Hence profit margin of the group is expected to improve over the medium term.

## Weaknesses

### Cyclical nature of the industry

The group's performance remains vulnerable to cyclical nature 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 Sensitivities

- Substantial improvement in the profitability margin
- Timely completion of project

## Material covenants

None

## Liquidity profile: Adequate

The group has adequate liquidity as reflected from the healthy net cash accrual of Rs. 60 Cr during FY22(Provisional) as against current long term loan maturity of 7.85 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 60-Rs65 Cr as against increased term loan repayments of around Rs.12.00 Cr from FY23-FY24. The current ratio stood comfortable at 1.94 times during FY22. The working capital limits were utilized at around 69 percent during the past 6 months ended April 2022. The cash & bank balance stood at 2.34 Cr (excluding margin money) as on 31.03.2022. However working capital requirement of the group is relatively high as reflected from GCA days of 137 days as on 31 March 2022(Provisional). Acuite believes the liquidity position of the group will remain adequate backed by steady cash flow and accruals over the medium term.

## Outlook

Not applicable

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1054.24	916.59
PAT	Rs. Cr.	22.40	16.37
PAT Margin	(%)	2.12	1.79
Total Debt/Tangible Net Worth	Times	0.50	0.43
PBDIT/Interest	Times	5.49	5.57

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

Not Applicable

## Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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>

### 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
06 Jul 2022	Bank Guarantee	Short Term	54.78	ACUITE A2+ (Reaffirmed)
01 Apr 2021	Bank Guarantee	Short Term	54.78	ACUITE A2+ (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	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	54.78	ACUITE A2+   Reaffirmed

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### About Acuité Ratings & Research

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