



Press Release
VFPL- ASIPL JV COMPANY
June 28, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.35	ACUITE A- Stable Assigned	-
Bank Loan Ratings	3.90	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	23.15	-	ACUITE A2+ Assigned
Bank Loan Ratings	46.10	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	83.50	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE A-' (read as ACUITE A minus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs 83.50 Cr bank facilities of VFPL ASIPL JV Company (VFPL). The outlook remains 'Stable'.

The rating reaffirmation considers the stable financial performance of the group in FY2023 (Prov), which is likely to remain firm in FY2024 as well. In FY2023 (Prov), a steady increase in scale of operations translated into a healthy improvement in the company's profits and cash accruals. Moreover, its operating income is expected to grow substantially to ~Rs. 1,356 crore in FY2024 on the back of higher volume coupled with steady realization. While the operating margins are likely to remain at 9-10 per cent in FY2024, the debt coverage indicators would continue to remain healthy. In addition, the company has been able to successfully diversify its product profile with commencement of commercial operations of the MT rolling capacity in Q4FY23. This will further strengthen its operating profile. Acuite notes Group's ongoing capital expenditure (capex) plans for its billet and captive power plant capacity. Capex will be done in FY24, and the Group is expected to spend R 46 crores on capex in FY2024, which will be entirely funded through internal accruals. Consequently, the group's capital structure and debt coverage indicators are anticipated to remain comfortable. Post the expansion, it will benefit from increased scale and other operational synergies, thus strengthening the overall operating profile. Considering its successful capacity expansion of the manufacturing operations in the past, Group has demonstrated steady volume growth and healthy profit margins over the last few years. The ratings, however, are constrained by the cyclicity inherent in the steel business and the intense competition in the industry, which makes margins and cash flows vulnerable to fluctuations in prices and demand.

About Company

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.

About the Group

MCCIPL was acquired by Rungta Group in 2010. The aggregate installed capacity of the

company is 90,000 MT of sponge iron, 72,000 MT of billet and 67,500 MT of Rolling Mill.

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 108,000 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.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has taken a consolidated view of Aloke 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.

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 allotted coal block in AMPL is expected to be operational by Q2FY24 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.

Total operating income of the group has increased at a CAGR of ~10% over FY20-FY23 driven by expansion of manufacturing facility for sponge iron, billet, and rolling mills. Besides, the group has also been able to scale up operations due to increase in capacity utilization across all its product segment. Moreover, the group has a healthy order book of Rs 1735 Cr as on April 2023 which provides revenue visibility for near to medium term. The group has witnessed steady improvement in the scale of operation as reflected from its revenue of Rs 1113.45 Cr in FY23(Provisional) as against Rs 1069.71 Cr in FY22. The average realization and sales volume of both intermediate and finished products witnessed improvement because of rising demand from end user segments. The revenue growth is expected to continue in FY24. With increase in installed capacity from FY24, capacity utilization and production growth will drive revenue growth even in a moderating price scenario. Importantly, the mix will be richer, with a higher share of steel and sponge iron.

Acuite believes the scale of operation is likely to improve over the medium term backed by

rise in sale of value-added steel products where realizations are higher in comparison to intermediate goods such as Sponge Iron and Billet.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by healthy net worth, steady gearing and debt protection metrics. The tangible net worth of the company improved to Rs.384.32 Cr as on March 31, 2022 from Rs.343.29 Cr as on March 31, 2021 due to accretion of profits to reserves. Acuité has considered unsecured loans of Rs.23.23 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Further, the tangible net worth of the group increased to Rs.425.77 Cr as on March 31, 2023 (Prov). Gearing of the company stood at 0.42 times as on March 31, 2022 as compared to 0.43 times as on March 31, 2021 and continued to remain at low level at 0.57 times as on March 31, 2023 (Prov), although there was some increase in the debt levels in FY2023 (Prov) due to the higher working capital requirements. Acuité notes that the company has been regularly incurring capex in the last few years for improving the share of intermediate and value added products in the overall revenue & profitability mix and foraying into backward integration. The

Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.83 times as on 31st March, 2022 and continued to remain at comfortable levels at ~0.96 times as on March 31, 2023 (Prov). Moreover, with adequate profitability led to improvement in the coverage ratio, Interest Coverage Ratio stood at 6.16 times and Debt Service coverage ratio at 3.55 times as on 31st March, 2023 (Prov) as against 5.57 times and 2.47 times as on March 31, 2022. Calibrated capex undertaken by the group over the past years was funded through internal accruals, unsecured loan along with debt, has also helped it maintain steady leverage. Commensurate returns from the planned capex in the form of backward integration and optimal capacity utilization will remain key credit monitorable for the group.

Acuité expects the leverage and coverage indicators to remain healthy in FY24 and improve over the medium term on the back of a surge in earnings further boosting the profitability of the company.

Steady profitability margin

The group has reported a steady EBITDA margin of 9.19% in FY23 (Prov.) vis a vis 7.50% in FY22 supported by backward integration measures and economies of scale benefits. In FY24, the allotted coal mine is expected to be operational, which will help to improve the group's operating margin. Moreover, captive consumption of intermediate goods and power will also help the group to expand the profit margin. Raw material prices have already seen some moderation – especially for iron ore. Coking coal, one of the key input raw materials that changes the dynamics of the steel industry, has plunged over the last few months with easing supply concerns. That said, FSA price hike remains a risk. EBITDA margin should remain healthy at ~9-10%, aided by cost advantages emanating from lower raw material cost as well as the improving product mix.

Acuite believes the profitability margin of the group is likely to remain healthy over the medium term backed by integrated operation.

Weaknesses

Moderate working capital management

The group has a moderate working capital requirement as reflected from 141 days of GCA days in FY23(Provisional) as against 107 days in FY22. In FY23 (Prov.), group had witnessed an increase in inventory days to 39 days from 31 days in FY22 as the group needs to maintain raw material inventory (iron ore coal stock) for uninterrupted production and to mitigate the raw material price fluctuations risk. The debtor days of the company have stood comfortable at 14 days (Prov.) in FY2023 as against 12 days in FY22. GCA days are majorly driven by other current assets which mostly comprises of advance to suppliers and receivable from revenue

authority. Acuite believes working capital requirement is likely to remain similar in the medium term considering the nature of industry.

Cyclical nature of the industry

The group's performance remains vulnerable to cyclicity 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

Liquidity Position Adequate

The company's liquidity position is strong marked by high net cash accruals of Rs.60.67 Cr as on March 31, 2022 as against maturing debt repayment obligation of Rs. 15.45 Cr over the same period. Further, the company is expected to generate a sufficient cash accruals over the medium term to repay its debt obligation. The current ratio stood comfortable at 1.80 times as on March 31, 2022 as compared to 1.94 times as on March 31, 2021. The fund based limit remains utilized at moderate levels of 78 per cent over nine months period ended May, 2023. Going forward, Acuite believes the liquidity position of the company is likely to be sustained, marked by steady net cash accruals.

Outlook:

Acuite believes the outlook on group will remain 'Stable' over the medium term backed by steady revenue visibility and healthy financial risk profile. The outlook may be revised to 'Positive' if the group is able to enhance profit margins significantly with sustained revenue growth. Conversely, the outlook may be revised to 'Negative' in case of deterioration in profitability margin or further elongation in working capital cycle

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1069.71	917.79
PAT	Rs. Cr.	24.04	16.37
PAT Margin	(%)	2.25	1.78
Total Debt/Tangible Net Worth	Times	0.42	0.43
PBDIT/Interest	Times	5.57	5.56

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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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, Acuite 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. For 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
30 Aug 2022	Cash Credit	Long Term	2.50	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.10	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	1.25	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	42.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	0.15	ACUITE A- Stable (Reaffirmed)
06 Jul 2022	Cash Credit	Long Term	1.25	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	42.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	2.50	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.10	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	0.15	ACUITE A- Stable (Reaffirmed)
01 Apr 2021	Cash Credit	Long Term	2.50	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	42.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	1.25	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	4.10	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Long Term	0.15	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	42.00	ACUITE A2+ Reaffirmed
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	4.10	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE A2+ Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.25	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.15	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.35	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.15	ACUITE A2+ Assigned

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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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