

Press Release

Hariom Ingots and Power Private Limited

May 04, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.32.65 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.32.65 Cr bank facilities of Hariom Ingots and Power Private Limited (HIPPL). The outlook is '**Stable**'.

The rating on HIPPL factors in the long standing experience of the promoters, efficient working capital cycle and the company's proximity to their raw material. The rating also draws comfort from the above average financial risk profile of the company characterized by moderate leverage and healthy debt coverage indicators. These strengths are, however, partially offset by the modest profitability margins and cyclical nature of the steel industry with volatility in commodity prices.

About the company

Incorporated in 2004, HIPPL is a closely-held company promoted by the Bhilai, Chhattisgarh-based Agrawal family. The company is engaged in the manufacture of MS billets and TMT bars with a current capacity of 90,000 MTPA for billets and 60,000 MTPA for TMT bars. The TMT bars manufactured by the company are sold under the brand 'Hariom TMT'. In FY2015, the company started manufacturing epoxy-coated TMT bars, which are more durable than the normal TMT bars and are sold under the brand 'Hariom Epoxy Shield'. In addition, HIPPL is involved in the trading of TMT bars and various rolled products manufactured by other steel players.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long experience of the promoters and established relationship with customers**

HIPPL was promoted by Mr. Santosh Agarwal in 2004. Currently, the operations are managed by him along with the second generation promoters, Mr. Sandeep Agarwal and Mr. Bhagwan Das Agarwal who have over a decade of experience in the iron and steel industry. Though the company began its commercial operations in 2004, however prior to that the Agarwal family was into trading of iron and steel products since last 45 years in Bhilai. Acuité believes the long track record, rich experience of the promoters, their strong understanding of local market dynamics and healthy relationships with customers and suppliers will continue to support the business going forward.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by moderate albeit improving networth, moderate gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.24.2 Cr as on 31st March, 2020 from Rs.22.7 Cr as on 31st March, 2019. Gearing of the company stood at 1.06 times as on 31st March, 2020 as compared to 1.55 times as on 31st March, 2019. The debt of Rs.25.8 Cr comprises of working capital borrowing of Rs.17.8 Cr, unsecured loans of Rs.5.9 Cr, long term borrowings of Rs.1.5 Cr and current portion of long term debt repayment of Rs.0.7 Cr as on 31st March, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.43 times as on 31st March, 2020 as against 2.05 times as on 31st March, 2019. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 2.99 times and Debt Service coverage ratio at 1.95 times as on 31st March, 2020. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.22 times as on 31st March, 2020. Acuité believes that going forward the financial risk profile of the company will be sustained backed by steady accruals and no major debt funded capex plans.

- **Efficient working capital management**

The efficient working capital management is marked by low Gross Current Assets (GCA) of 43 days in FY2020 as compared to 44 days in FY2019. The low GCA days are on account of efficient collection mechanism with debtor days at 7 days as on March 31, 2020 as compared to 12 days as on 31st March, 2019. The inventory period is comfortable at 34 days as on March 31, 2020 as compared to 28 days as on March 31, 2019. Acuité believes that the working capital management of the company will remain at same level as evident from efficient collection mechanism and comfortable inventory levels over the medium term

Weakness

- **Moderate profitability margins**

Historically, the profitability margins of the company have been at relatively low levels. HIPPL's operating margin stood at 3.35 per cent in FY2020 as compared to 3.38 per cent in FY2019. The PAT margins stood at 0.62 per cent in FY2020 as against 0.70 per cent in FY2019. The reduction in margin is due to decrease in the average realization in FY20. Apart from manufacturing, the company is also involved in trading of billets, TMT bars and various rolled products manufactured by other steel players which fetches lower margins for the company. Moreover, one-third of the company's revenue is derived from billet sales which has lesser margin percentage in comparison to TMT bars and epoxy coated bars. Majority of the business is carried out on cash basis by offering discounts to dealers resulting in low profitability margins. Acuité believes that going forward the profit margins of the company would remain at current levels owing to its collection mechanism and nature of operations.

- **Intense competition and inherent cyclical nature of the steel industry**

The industry remained heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivity

- Sustainability in their growth in scale of operations while improving profitability margin
- Improvement in capital structure

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.5.7 Cr in FY2020 as against a long term debt repayment of Rs.1.4 Cr over the same period. The fund based limit remained utilized at about 68 percent over the seven months ended March, 2021. The company's efficient working capital management is reflected from low Gross Current Assets (GCA) of 43 days in FY2020 as compared to 44 days in FY2019. The current ratio stood moderate at 1.12 times as on 31st March, 2020 as compared to 0.98 times as on 31st March, 2019. The cash and bank balances of the company stood at Rs.0.2 Cr in FY2020 as compared to Rs.1.1 Cr in FY2019. The company availed a Covid loan of Rs.7.65 Cr and a loan moratorium. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on HIPPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its bottom line and cash accruals, hence expanding its networth base. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	247.11	315.26
PAT	Rs. Cr.	1.52	2.21
PAT Margin	(%)	0.62	0.70
Total Debt/Tangible Net Worth	Times	1.06	1.55
PBDIT/Interest	Times	2.99	2.84

Status of non-cooperation with previous CRA

- ICRA, vide its press release dated Nov 15, 2017 had denoted the rating of Hariom Ingots and Power Private Limited as 'ICRA B+/Stable/A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB-/Stable (Assigned)
GECL	Not Applicable	Not Applicable	Not Applicable	5.15	ACUITE BBB-/Stable (Assigned)
CCECL	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Sonal Modi Analyst - Rating Operations Tel: 033-66201215 sonal.modi@acuite.in	

About Acuité Ratings & Research:

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