

Press Release

Hariom Ingots and Power Private Limited

July 11, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.65	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	32.65	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUI TE triple B minus**) on the Rs.32.65 Cr bank facilities of Hariom Ingots and Power Private Limited (HIPPL). The outlook has been revised to '**Negative**'.

The rating reaffirmation on HIPPL factors in the long experience of the management, established track record of around two decades and efficient working capital cycle supported by company's proximity to its raw material sources. The rating also draws comfort from the above average financial risk profile of the company. These strengths are, however, partially offset by the low profitability margins and cyclical nature of the steel industry with volatility in input prices. Despite improved price realisation of products, significant surge in input costs has moderated the profitability levels of the company, there by leading to increased utilisation of working capital limits.

The outlook revision takes cognizance of the continuous decline in the operating profitability margins of the company since the last five fiscals even though the price realisation of products have improved significantly in FY21 and FY22. In addition, the net profit margin has also stood at 0.59 per cent in FY22 (prov.), which is the lowest in the past five FYs. Hence the below industry standard margins of HIPPL might further deteriorate the business risk position of the company, in the future.

About the Company

Incorporated in 2004, HARIOM INGOTS AND POWER PRIVATE LIMITED (HIPPL) is promoted by the Agrawal family, based in Bhilai, and Chhattisgarh. 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. The company is currently headed by Mr.

Santosh Kumar Agrawal, Mr. Sandeep Agrawal, Mr. Bhagwan Das Agrawal, and Mr. Ajay Agrawal.

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 promoters and established relationship with customers

HIPPL was promoted by Mr. Santosh Agrawal in 2004. Currently, the operations are managed by him along with his two sons Mr. Sandeep Agrawal and Mr. Bhagwan Das Agrawal who have nearly two decades of experience in the iron and steel industry. Though the company began its commercial operations in 2004, however prior to that 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 relations 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 yet improving networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company has improved to Rs.30.70 Cr as on 31st March, 2022 (Prov.) from Rs.28.84 Cr as on 31st March, 2021. Acuité has considered unsecured loans of Rs.2.50 Cr as on March 31, 2022 as quasi-equity as the management has undertaken to maintain it in the business during the tenure of the bank facilities. Gearing of the company is comfortable at 0.94 times as on March 31, 2022 (prov.) as against 0.71 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.43 times as on March 31, 2022 (prov.) as against 0.82 times as on March 31, 2021. The healthy debt protection metrics of the group is marked by Interest Coverage Ratio at 3.38 times and Debt Service Coverage Ratio (DSCR) at 2.39 times as on March 31, 2022 (prov.). NCA/TD stood at 0.18 times in FY2022 (prov.). Going forward, Acuité believes that the financial risk profile of the company will be sustained at similar levels backed by steady accruals and no major debt funded capex plans.

Efficient working capital cycle

The efficient working capital cycle is marked by expected low Gross Current Asset (GCA) of 58 days as on 31st March, 2022 (prov.) as compared to 35 days as on 31st March, 2021. The low GCA days are on account of efficient collection mechanism with debtor days at 3 days as on 31st March, 2022 (prov.) as against 2 days as on 31st March, 2021. The inventory period is also comfortable at 53 days as on 31st March, 2022 (prov.) as compared to 27 days as on 31st March, 2021. The inventory holding increased in FY22 due to increase in finished goods in the year end. Acuité believes the working capital cycle will remain at similar levels over the medium term.

Weaknesses

Declining profitability margins

Historically, the profitability margins of the company have been at relatively low levels. Due to huge surge in input prices, high fuel cost and freight cost, the operating margin of the company decreased to around 2.48 per cent in FY22 (prov.) as against 3.26 per cent in FY21. The PAT margin also marginally decreased to 0.59 per cent in FY22 (prov.), from 0.81 per cent in FY21. Moreover, one-third of the company's revenue is derived from billet sale which has lower 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, amidst the cyclical nature of business and absence of captive power plant, the company's ability to improve its margins will remain a key monitorable.

Susceptibility of profitability to volatility in raw material prices, competitive and

cyclical industry

The company's profitability is highly susceptible to volatility in prices of the key raw materials. Any sharp upward movement in the raw material prices and the inability of the company to pass on the increased cost of raw materials may result in dip in operating margins. The industry remained heavily fragmented and unorganised. The company is exposed to intense competitive pressures from large number of organised and unorganised players. Moreover, the profit margins of the company remains exposed to inherent cyclical nature in the steel industry and volatility in raw material prices.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by net cash accruals of around Rs.5.12 Cr in FY2022 (prov.) as against long term debt repayment of only Rs.0.73 Cr over the same period. The current ratio of the company is comfortable at 1.35 times as on March 31, 2022 (prov.) as against 1.92 times in FY21. HIPPL has unencumbered cash balance of around of around Rs.0.97 Cr as on 31st Mar, 2022 (prov.). The fund based limit remained utilised at 83 per cent over the six months ended May, 2022. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Negative

Acuité has revised the outlook to 'Negative' on account of low expected profitability margins of the company, going forward. The steel prices are volatile due to the cyclical nature of the industry and hence further deterioration in the profits levels will impinge on the business risk position of the company. The outlook may be revised to 'Stable' in case the company registers significant improvement in its profitability levels thereby improving its cash accruals.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	314.49	263.71
PAT	Rs. Cr.	1.86	2.13
PAT Margin	(%)	0.59	0.81
Total Debt/Tangible Net Worth	Times	0.94	0.71
PBDIT/Interest	Times	3.38	3.82

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

- ICRA, vide its press release dated Oct 28, 2021 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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 May 2021	Cash Credit	Long Term	5.15	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	2.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.80	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.77	ACUITE BBB- Negative Reaffirmed Stable to Negative
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.58	ACUITE BBB- Negative Reaffirmed Stable to Negative
Kotak Mahindra Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.50	ACUITE BBB- Negative Reaffirmed Stable to Negative

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About Acuité Ratings & Research

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