Press Release

Pankaj Ispat Limited

June 29, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.19.60 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** on the Rs.19.60 Cr bank facilities of Pankaj Ispat Limited (PIL). The outlook remains **'Stable'**.

The rating on PSL takes into account the comfortable business profile of the Pankaj Group, its revenue diversity across the steel sector and its healthy financial position characterised by comfortable leverage and debt coverage indicators. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About the company

Incorporated in 2006, Pankaj Ispat Limited (PIL) is a Raipur, Chhattisgarh based company, engaged in manufacturing of MS Ingots and TMT bars. Currently, the company is headed by Mr. Pankaj Agarwal, Mr. Lalit Agarwal and Ms. Pooja Agrawal. The company has a capacity of 54000 MTPA of Ingots and 45000 MTPA of TMT bars.

About the group

Established in 2000, Pankaj group was promoted by Agarwal family of Raipur, Chhattisgarh. The group consists of Pankaj Ispat Limited (PIL), Alankar Alloys Private Limited (AAPL), Sourabh Rolling Mills Private Limited (SRMPL) and Tridev Ispat Private Limited (TIPL). The group is engaged in the business of steel and steel products. Currently, the group has a capacity of 78000 MTPA of Ingots, 156690 MTPA of Billets, 182000 MTPA of TMT and 30000 MTPA of Pipes. The group sells its products under the brand name of "Sagar" for both TMT and pipes.

Incorporated in 2006, Alankar Alloys Private Limited (AAPL) is a Raipur, Chhattisgarh based company, engaged in manufacturing of MS Billets and TMT bars. Currently, the company is headed by Mr. Akash Agrawal and Mrs. Usha Devi Agrawal. The company has a capacity of 72000 MTPA of Billets and 65000 MTPA of TMT bars.

Established in 2004, Sourabh Rolling Mills Private Limited (SRMPL) is a Raipur based company, engaged in manufacturing of MS Billets, Pipes, TMT bars and Strips. Currently, the company is headed by Mr. Pankaj Agrawal and Mr. Lalit Agrawal. The company has a capacity of 84960 MTPA of Billets and 72000 MTPA of Rolling Mills and 30000 MTPA of Pipes.

Incorporated in 2006, Tridev Ispat Private Limited (TIPL) is a Raipur based company, engaged in manufacturing of MS Ingots. Currently, the company has a capacity of 24000 MTPA of Ingots.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Pankaj Ispat Limited (PIL), Alankar Alloys Private Limited (AAPL), Sourabh Rolling Mills Private Limited (SRMPL) and Tridev Ispat Private Limited (TISPL) together referred to as the 'Pankaj Group' (PG). The consolidation is in the view of common management, strong operational linkages between the entities and a similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

The key promoters of the group, Mr. Lalit Agarwal and Mrs. Usha Devi Agrawal have been associated with the iron & steel industry for two decades. In addition to this, the second generation promoters Mr. Pankaj Agarwal, Ms. Pooja Agrawal and Mr. Akash Agrawal are now involved with the day to day operations of the group. Acuité believes that the promoters' extensive understanding and expertise will support the group's growth plans going forward.

- **Comfortable business risk profile**

The strong business risk profile of the group is supported by the semi integrated nature of operations with a manufacturing capacity of ingots, billets, TMT bars and pipes; this enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. Also, the revenue of the group has improved to Rs. 922.32 Cr in FY2021 (Provisional) as compared to revenues of Rs. 748.18 Cr in FY2020 and Rs. 825.27 Cr in FY2019, thereby registering a CAGR of 5.72 per cent in two years. The growths in revenue are primarily on account of high demand and better pricing. Acuité believes that the sustainability in the revenue growth would be a key monitorable going forward.

- **Healthy financial risk profile**

The group's healthy financial risk profile is marked by modest networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the group improved to Rs.82 Cr as on March 31, 2020 from Rs.70.27 Cr as on March 31, 2019 due to accretion of profits. Acuité has considered unsecured loans of Rs.10.00 Cr as on March 31, 2020, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the group stood comfortable as Debt to Equity ratio stood at 0.76 as on March 31, 2020 as compared to 0.87 as on March 31, 2019. The debt of Rs.62.61 Cr mainly consists of working capital borrowing of Rs.50.55 Cr long term debt of Rs.7.16 Cr, current maturity of term loan of Rs.3.85 Cr and unsecured loan of Rs. 1.04 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.54 times as on March 31, 2020 as against 2.73 times as on March 31, 2019. The strong debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 3.54 times as on March 31, 2020 and Debt Service Coverage Ratio (DSCR) at 2.67 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.39 times as on March 31, 2020. Acuité believes that going forward the financial risk profile of the group will remain healthy over the medium term, in absence of any major debt funded capex plans.

- **Efficient working capital management**

The efficient working capital management of the group is marked by Gross Current Assets (GCA) of 86 days as on March 31, 2020 similar as against 68 days as on March 31, 2019. The comfortable GCA days are on account of low debtor period which stood at 7 days as on March 31, 2020 as compared to 5 days as on 31st March 2019. Further, the inventory holding level is comfortable at 55 days as on March 31, 2020 as compared to 42 days as on March 31, 2019. Going forward, Acuité believes that the working capital operations of the group will remain at same level as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

Weakness

- **Low profitability margins**

The profitability margins of the group are low on account of volatile raw material cost. The operating margin of the group stood at 5.86 per cent in FY2021 (provisional) as compared to 3.81 per cent in the previous year. The PAT margins stood at 2.71 per cent in FY2021 (provisional) as against 1.53 per cent as on FY2020. However, this risk is mitigated to an extent on account of the planned backward integration of operations of the group.

- **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

- Growtht in revenue along with improvement in profitability margins
- Elongation in working capital cycle

Material Covenant
None

Liquidity Profile: Adequate
The group's liquidity is adequate marked by net cash accruals stood at Rs.24.44 Cr as on March 31, 2020 as against long term debt repayment of Rs. 3.75 Cr over the same period. Further, the working capital management of the group is efficient marked by comfortable Gross Current Assets (GCA) of 86 days as on March 31, 2020 similar as against 68 days as on March 31, 2019. The cash and bank balances of the group stood at Rs.0.83 Cr as on March 31, 2020 as compared to Rs.2.59 Cr as on March 31, 2019. The group has availed loan moratorium and also applied for additional covid loan of Rs. 14.60 Cr. However, the fund based limit remains highly utilised at 91 per cent over the six months ended April, 2021. The current ratio stood below unity at 0.93 times as on March 31, 2020 on account high advances from customers, statutory liabilities and provisions. The current ratio improved above unity in FY2021 as per provisional data. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals.

Outlook: Stable
Acuité believes that the outlook on Pankaj group will remain 'Stable' over the medium term on account of the long track record of operations, experienced management, healthy financial risk profile and efficient working capital management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	748.18	825.27
PAT	Rs. Cr.	11.43	12.58
PAT Margin	(%)	1.53	1.52
Total Debt/Tangible Net Worth	Times	0.76	0.87
PBDIT/Interest	Times	3.54	2.61

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	149.10	156.70
PAT	Rs. Cr.	0.34	1.95
PAT Margin	(%)	0.23	1.24
Total Debt/Tangible Net Worth	Times	0.81	0.79
PBDIT/Interest	Times	1.85	2.14

Status of non-cooperation with previous CRA
Not Applicable

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
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
09-Jun-2021	Cash Credit	Long term	15.00	ACUITE BBB/Stable (Assigned)
	CECL	Long term	1.50	ACUITE BBB/Stable (Assigned)
	GECL	Long term	3.10	ACUITE BBB/Stable (Assigned)

***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	15.00	ACUITE BBB/Stable (Reaffirmed)
CECL	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/Stable (Reaffirmed)
GECL	Not Applicable	Not Applicable	Not Applicable	3.10	ACUITE BBB/Stable (Reaffirmed)

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.