

Press Release

Pankaj Ispat Limited

July 22, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.60	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	19.60	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 Pankaj Group takes into account the strong business profile marked by its presence across the steel value chain and its healthy financial position characterised by comfortable leverage and debt coverage indicators. Further, it is also supported by the management's long track record in the sector and efficient working capital management. 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 Mr. 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.

· Strong business risk profile supported by semi integrated nature of operations and locational advantage The strong business risk profile of the company is supported by the semi integrated nature of operations of the company; 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 company has improved to Rs. 1367.86 Cr in FY2022 (provisional) as compared to revenues of Rs.925.40 Cr in FY2021 and Rs.748.18 Cr in FY2020, thereby registering a 2-year CAGR of 35.25 per cent. The growth in revenue is 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.

In addition to this, the company has a locational advantage as the plants are located in the industrial area of Chattisgarh, which is in close proximity to various steel plants and sources of raw materials. Further the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

· Healthy financial risk profile

The group's healthy financial risk profile is marked by healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the group improved to Rs.117.32 Cr as on March 31, 2022 (provisional) from Rs.99.18 Cr as on March 31, 2021 due to accretion of profits. Gearing of the group stood comfortable as Debt to Equity ratio stood at 0.94 as on March 31, 2022 (provisional) as compared to 0.88 as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 1.81 times as on March 31, 2022 (provisional) as against 2.04 times as on March 31, 2021. The strong debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 4.43 times as on March 31, 2022 (provisional) and Debt Service Coverage Ratio (DSCR) at 2.11 times as on March 31, 2022 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.28 times as on March 31, 2022 (provisional). Acuité believes that going forward the financial risk profile of the group will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

· 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 3.47 per cent in FY2022 (provisional) as compared to

5.12 per cent in the previous year. The PAT margins stood at 1.33 per cent in FY2022 (provisional) as against 1.86 per cent as on FY2021. However, this risk is mitigated to an extent on account of the semi integrated nature 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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

The group's liquidity is adequate marked by high net cash accruals stood at Rs.30.71 Cr as on March 31, 2022 (provisional) as against long term debt repayment of Rs. 8.92 Cr over the same period. Further, the working capital management of the group is efficient marked by comfortable Gross Current Assets (GCA) of 58 days as on March 31, 2022 (provisional) similar as against 79 days as on March 31, 2021. The current ratio stood comfortable at 1.36 times as on March 31, 2022 (provisional). The cash and bank balances of the group stood at Rs.11.63 Cr as on March 31, 2022 (provisional) as compared to Rs.1.07 Cr as on March 31, 2021. However, the fund based limit remains highly utilised at 86 per cent over the six months ended March, 2022. 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1367.86	925.40
PAT	Rs. Cr.	18.14	17.19
PAT Margin	(%)	1.33	1.86
Total Debt/Tangible Net Worth	Times	0.94	0.88
PBDIT/Interest	Times	4.43	4.68

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

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>
- 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
29 Jun 2021	Working Capital Term Loan	Long Term	1.50	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.10	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Reaffirmed)
09 Jun 2021	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	3.10	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	1.50	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
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB Stable Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.17	ACUITE BBB Stable Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	2.41	ACUITE BBB Stable Reaffirmed
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	1.55	ACUITE BBB Stable Reaffirmed
Punjab National Bank	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.47	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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