

Press Release

Agrawal Sponge Private Limited

August 31, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.34.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs.34.00 Cr bank facilities of Agrawal Sponge Private Limited (ASPL). The outlook is **'Stable'**.

The rating on ASPL takes cognizance of group's healthy business risk profile marked by long track record, experienced management and strategic location of the units in proximity to raw material sources and secondary steel producers. The rating also draws comfort from the above average financial risk profile of the group characterized by healthy network, comfortable gearing and healthy debt protection indicators. These strengths are, however, partially constrained by the working capital intensity in its operations and the cyclical nature of the steel industry.

About the company

Incorporated in 2004, Agrawal Sponge Private Limited (ASPL) was taken over by the current directors in 2012. The company is involved in the manufacture of sponge iron with an installed capacity of 66,000 MTPA and MS ingots with an installed capacity of 15,000 MTPA. The manufacturing facility of company is located in Raipur, Chhattisgarh. ASPL's board of directors include Mr. Kailash Chand Agrawal, Mrs. Rajni Devi Agrawal, Mr. Ankur Agrawal and Mr. Amol Agrawal.

About the group

Rashmi Sponge Iron & Power Industries Private Limited (RSIPIPL) is a Chhattisgarh based company, incorporated in 1995. The company was initially incorporated as JRG Credits & Holdings Pvt. Ltd. but was taken over by Agrawal family in 2003. RSIPIPL is engaged in the manufacture of sponge iron with an installed capacity of 66,000 MTPA, billets with an installed capacity of 100,000 MTPA and has a captive power plant of 8 MW. The manufacturing unit of the company is located at Siltara Industrial Area in Raipur. The company's board of directors include Mr. Kailash Chand Agrawal, Mr. Manoj Agrawal, Mr. Ankur Agrawal and Mr. Amol Agrawal.

Incorporated in 2015, Vrij Metaliks Private Limited (VMPL) was taken over by the current directors in 2018. The company is involved in the manufacture of sponge iron with an installed capacity of 66,000 MTPA. The manufacturing facility of company is located in Raipur, Chhattisgarh. VMPL's board of directors include Mr. Kailash Chand Agrawal, Mr. Manoj Agrawal, Mr. Ankur Agrawal and Mr. Amol Agrawal.

Together the above three companies are referred to as the 'Rashmi Sponge Group' (RSG). Currently, the group has installed capacities of sponge iron ~ 200,000 MTPA, billets 100,000 MTPA, MS ingots 15,000 MTPA and captive power plant of 8 MW. In addition, RSIPIPL has a stake of 17.61 per cent in ASPL and 19.88 per cent in VMPL.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Agrawal Sponge Private Limited (ASPL), Rashmi Sponge Iron and Power Industries Private Limited (RSIPIPL) and Vrij Metaliks Private Limited (VMPL) together referred to as the 'Rashmi Sponge Group' (RSG). The consolidation is in the view of common management, operational linkages between the entities, inter-company holdings and similar line of business operations. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record and long association with customers & suppliers**

The promoters of RSG started out as dealers of SAIL in 1990 and then ventured into steel manufacturing in 2003. The overall operations are currently looked after by the Mr. Kailash Chand Agrawal and Mr. Manoj Agrawal. Mr. Ankur Agrawal and Mr. Amol Agrawal are the second generation directors in the company supported by a team of capable professionals. The company bags repeat orders from its customers due to established relationship with reputed customers. RSG has long-term fuel supply agreement (FSA) with renowned suppliers like National Mineral Development Corp Ltd (NMDC) for iron ore and with South Eastern Coalfields Ltd (SECL) for coal. Acuite 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 group's above average financial risk profile is marked by healthy networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the group improved to Rs.161.38 Cr as on 31st March, 2021 (provisional) from Rs.149.04 Cr as on 31st March, 2020. Gearing of the group stood below unity at 0.63 times as on 31st March, 2021 (prov.) as compared to 0.65 times as on 31st March, 2020. The debt of Rs.101.15 Cr comprises of long term borrowings of Rs.33.98 Cr out of which around Rs.20 Cr is Covid loan, working capital borrowing of Rs.61.14 Cr and current portion of long term debt repayment of Rs.6.03 Cr as on 31st March, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.80 times as on 31st March, 2021 (prov.), same as in the previous year. The debt protection metrics of the group is moderate marked by Interest Coverage Ratio at 2.57 times and Debt Service coverage ratio at 1.66 times as on 31st March, 2021 (prov.). The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on 31st March, 2021 (prov.) from 0.12 times as on 31st March, 2020. Acuite believes that going forward the financial risk profile of the group will improve backed by steady accruals and no major debt funded capex plans.

- **Healthy business risk profile**

The group has achieved revenues of Rs.437.55 Cr in FY2021 (provisional) as compared to revenues of Rs.361.20 Cr in FY2020, registering a y-o-y growth of 21.14 per cent. The increase in operating income in FY21 is due to the bullish trend in the steel industry and thus the consumption scenario is upscale. Further, in the current financial year, the group has achieved a turnover of Rs.123 Cr (provisional) in Q1FY2022 and the same is despite some macroeconomic headwinds.

The operating margin of the group marginally increased to 6.71 per cent in FY2021 (provisional) as compared to 6.57 per cent in the previous year. The PAT margins improved to 2.50 per cent in FY2021 (provisional) as against 1.91 per cent as on FY2020. The improvement in profitability margins is due to increase in the demand from end user customers and better price realizations. The RoCE levels stood comfortable at 10.27 per cent in FY2021 (prov.) as against 8.34 per cent in FY2020. Acuite believes the profit margin of the group will improve further due to strong demand which is expected to push steel prices further over the medium term.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 146 days in FY2021 (provisional) as compared to 147 days in FY2020. The high GCA days are on account of high amount of advances to suppliers due to purchase agreement with NMDC and SECL. Further, the inventory period stood at 63 days as on March 31, 2021 (prov.) which is at a similar level as the previous year. RSG maintains an average inventory of around 2 months for smooth running of operations in the plant. The debtor period stood comfortable at 26 days as on March 31, 2021 (prov.) as compared to 31 days as on 31st March 2020. Majority of the group's payment terms with suppliers are in advance, the incremental net working capital requirements are partially managed by way of promoter unsecured loans and reliance on short term borrowings. Going forward, Acuite believes that the working capital management of the group will remain at similar levels as evident from the high amount of advances to suppliers over the medium term.

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

The industry remained heavily fragmented and unorganized. The company is exposed to intense competitive pressures from large number of organized and unorganized 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
- Deterioration in working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The group's liquidity position is adequate marked by net cash accruals of Rs.15.16 Cr in FY2021 (provisional) as against a long term debt repayment of Rs.4.44 Cr over the same period. The current ratio stood comfortable at 1.83 times as on 31st March, 2021 (provisional) as compared to 1.49 times as on 31st March, 2020. The cash and bank balances of the group stood at Rs.8.09 Cr in FY2021 (provisional) as compared to Rs.0.01 Cr in FY2020. The fund based limit remained utilised at about 77 percent over the five months ended May, 2021. However, the group availed a Covid loan of Rs.20.78 Cr and a loan moratorium. The group's working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 170 days in FY2021 (prov.) as compared to 176 days in FY2020. Acuite believes that going forward the liquidity position of the group will improve due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on RSG will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and above average financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to further deterioration of its liquidity position.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	437.55	361.20
PAT	Rs. Cr.	10.94	6.89
PAT Margin	(%)	2.50	1.91
Total Debt/Tangible Net Worth	Times	0.63	0.65
PBDIT/Interest	Times	2.57	2.38

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	118.33	97.94
PAT	Rs. Cr.	2.97	1.97
PAT Margin	(%)	2.51	2.01
Total Debt/Tangible Net Worth	Times	1.50	1.51
PBDIT/Interest	Times	2.70	2.45

Status of non-cooperation with previous CRA

- CARE, vide its press release dated Aug 17, 2021 had denoted the rating of Agrawal Sponge Private Limited as 'CARE 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>
- 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)

Not Applicable

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BBB/Stable (Assigned)
HDFC Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3+ (Assigned)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3+ (Assigned)

Note: Rs.5 Cr ILC /BG limit (sublimit of CC) and Rs.2.50 Cr ILC limit (sublimit of BG)

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About Acuité Ratings & Research:

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