

Press Release

ARS Steels And Alloy International Private Limited

September 15, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.135.00 Cr.
Long Term Rating	ACUITE BBB+ / Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.135.00 Cr. bank facilities of ARS Steels and Alloy International Private Limited (ARS Steels). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into consideration, the established market position of the company in the steel industry especially across southern states of the country. The ratings also draws comfort from long extensive experience of the promoters in the steel industry, strong business risk profile of the company along with sustained growth in scale of operations, healthy net worth, efficient working capital nature of operations and adequate liquidity position of the company. The rating also factors the semi integrated manufacturing plant of the company and the power purchase agreement with its group company i.e. ARS Energy for the power procurement at affordable costs. However, the rating is constrained by low profitable margins owing to susceptibility of margins towards raw material price volatilities and intense competition across the industry.

About the Company

Chennai based ARS Steels & Alloy International Private Limited (ARS Steels) begin its operations from September, 1990 with the name of ARS Metals Private Limited. Later after the inception of energy division in 2013, the company demerged the steel and power division into two different companies i.e. ARS Steels & Alloys International Limited and ARS Energy Private Limited. From 2013, both the companies together refer to as ARS group which is promoted by its current Managing Director Mr. Ashwani Kumar Bhatia. The company currently has one manufacturing plant located at Gummidipoondi, Tamil Nadu.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of ARS Steels to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations with experienced promoters**

Chennai based ARS Steels was incorporated in 2013 after the demerger of the steel and power division of ARS Metals Private Limited. ARS Metals started the business from 1990 and after the inception of the energy division in 2013, it demerged both its steel and power division into two separate entities i.e. ARS Steels and ARS Energy and formed the ARS group. ARS Steels is promoted by Mr. Ashwani Bhatia and Mr. Rajesh Bhatia who possesses more than three decades of experience in the steel industry. The promoters of the company are ably supported by a well experienced second line of top management in running day to day operations of the company. The extensive experience of the promoters has helped to established and maintain a long and healthy relationship with both its customers and suppliers over the years.

Acuite believes that the company will continue to benefit from its extensive promoter's experience and established relationships with both its customers as well as suppliers in the medium term.

- **Augmentation in business risk profile supported by power procurement agreement with ARS Energy**

The revenue of the company grew around 11 percent CAGR over FY18-21 (Provisional) period from Rs.379 Cr. in FY18 to Rs.516.03 Cr. in FY21 (Provisional). The increase in revenues over the years is mainly on account

of healthy growth in demand of TMT bars led by higher construction activities and government focus towards infrastructure development across the country. The revenues were slightly impacted with the onset of covid-19 pandemic in Q1FY21 which restricted construction activities for some time. However, with strong recovery in H2FY21, the company was able to register 15 percent YoY growth in FY21 (Provisional) compared against FY20. Further, the company registered revenues of Rs.139 Cr. in Q1FY22 despite the awakening of second covid-19 wave across the country.

The profitability of the company also improved in FY21 (Provisional) marked by increased in operating profit and net profit margins. The operating profit margin of the company improved to 4.91 percent in FY21 (Provisional) as against 3.77 percent in FY20 majorly on decline in raw material costs and lower power costs. The company has a power procurement agreement with its group company i.e. ARS Energy for the procurement of all the power required for the manufacturing process providing the required support in saving the power costs to some extent. Furthermore, the company generated net profit of Rs.21.83 Cr. in FY21 (Provisional) against Rs.10.50 Cr. in FY20.

Acuite believes that the business risk profile of the company is expected to improve in the medium term on account of increase in demand of steels owing to government push towards infrastructure development across the nation.

• **Healthy financial risk profile**

The financial risk profile of the company is remains healthy marked by healthy tangible net worth, low gearing and healthy debt protection metrics. The tangible net worth of the company increased and stood at Rs.167.81 Cr. as on 31 March, 2021 (Provisional) as against Rs.144.31 Cr. in the previous year majorly on account of accretion of profits. The gearing level of the company stood comfortable and low at 0.06 times as on 31 March, 2021 (Provisional) compared to 0.44 times same period last year. The total borrowings of the company includes only working capital borrowings of Rs.9.67 Cr. The healthy debt protection matrices is market by interest coverage ratio of 11.33 times in FY21 (Provisional) as against 3.00 times in the previous year. The debt service coverage ratio stood at 11.33 times for FY21 (Provisional) as against 2.59 times in the previous year. The total liabilities to tangible net worth (TOL/TNW) improved marginally and remain low at 0.35 times as on 31 March, 2021 (Provisional) as against 0.61 times in the previous year.

Acuite believes that the financial risk profile of the company will continue to remain healthy on account of no major debt funded capex over the medium term.

• **Working capital efficient nature of operations**

The working capital management of the company have been efficient marked by improved and low Gross Current Assets (GCA) of 68 days for FY21 (Provisional) as against 113 days for FY20. The low GCA days is majorly on account of decline in inventory levels which stood at 18 days for FY21 (Provisional) as against 58 days for FY20. Further, the debtor days of the company stood at similar levels of 33 days for FY21 (Provisional) as against 32 days for FY20. Subsequently, the creditor days increased moderately to 17 days for FY21 (Provisional) as against 8 days for FY20. The efficient working capital management is also supported by lower utilization of working capital limits which has been averagely utilized around 12 percent in last six months ended July, 2021. Further, the current ratio of the company improved and stood healthy at 2.44 times as on 31 March, 2021 (Provisional) as against 1.59 times same period last year.

Acuite believes that the ability of the company to maintained efficient working capital management will remain a key rating sensitivity.

Weaknesses

• **Profitability margins are susceptible to volatility in raw material prices**

The company operates in the manufacturing TMT bars and billets in which the major raw material required is scrap. The company currently procures all the required raw materials domestically and contributes around 60 to 70 percent of the overall costs. The prices of scrap are volatile in nature which directly impacts the operating profit margin of the company. The EBITDA margin of the company stood at 4.71 percent in FY19, 3.77 percent in FY20 and 4.91 percent in FY21 (Provisional). The second major input cost required by the company is the power cost. However, the PPA agreement with its group company ARS Energy provides adequate support in reduction in power cost to some extent. Acuite believes that the profitability of the company will continue to remain exposed to the raw material price fluctuation risks over the medium term.

• **Intense competition and inherent cyclical nature of steel industry**

The domestic steel industry continues to remain fragmented, unorganized and cyclical in nature. The operations of the company are exposed to the intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Furthermore, the demand in steel is also depends on development in various other sectors such as Construction, Real Estate. However, the government focus towards infrastructure over the medium term partially offset the risks associated with cyclical nature of the steel industry.

Rating Sensitivities

- Sustained growth in scale of operations and profitability
- Deterioration in financial risk profile
- Any stretch in working capital and deterioration in liquidity position

Material Covenants

None

Liquidity position: Adequate

The liquidity position of the company is adequate reflected by adequate net cash accruals against no maturing debt obligations. The net cash accruals of the company stood at Rs.25.83 Cr. in FY21 (Provisional) against no debt obligations for the same period. The operations of the company are efficiently managed marked by low GCA days of 68 days for FY21 (Provisional). Further, the working capital limits are utilized at only 12 percent in last six months ended July, 2021. The company maintains unencumbered cash and bank balance of Rs.6.24 Cr. and the current ratio stood healthy at 2.44 times as on 31 March, 2021 (Provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against no matured debt obligations.

Outlook: Stable

Acuite believes that the company will maintain 'Stable' outlook in the medium term on account of the extensive experience of the promoters in the steel industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected generation of cash accruals or stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	516.03	448.38
PAT	Rs. Cr.	21.83	6.64
PAT Margin	(%)	4.23	1.48
Total Debt/Tangible Net Worth	Times	0.06	0.44
PBDIT/Interest	Times	11.33	3.00

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

Not Applicable

Any other information

None

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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB+ / Stable (Assigned)
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB+ / Stable (Assigned)
Canara Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	79.00	ACUITE A2+ (Assigned)
Punjab National Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:

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