

## Press Release

ARS Steels And Alloy International Private Limited

December 08, 2022

## Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	82.00	ACUITE BBB   Negative   Downgraded   Stable to Negative	-
Bank Loan Ratings	53.00	-	ACUITE A2   Downgraded
Total Outstanding Quantum (Rs. Cr)	135.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on Rs.135.00 Cr bank facilities of ARS Steels and Alloy International Pvt Ltd (ARS Steel). The outlook is revised from 'Stable' to '**Negative**'.

## Rationale for downgrade

The rating downgrade and the revision in outlook reflects the potential impact of the termination of operation of ARS Energy Pvt Ltd (AEPL) on the company's profitability. ARS Steel procures more than 90 percent of its power requirements from its group company i.e. AEPL through a power purchase agreement (PPA) at a competitive rate. With the classification of AEPL as a non-performing Asset (NPA) in banks' advances, its funding and operations have been disrupted. The rating of AEPL has been downgraded to 'ACUITE C/D' by Acuite vide its press release dated Dec 1, 2022. Acuite believes that the profitability of ARS Steel will be under pressure in the near to medium term on account of alternative power purchase agreements required to be signed by the company at higher cost to meet its power requirements.

## About the Company

Chennai based ARS Steels and Alloy International Private Limited (ARS Steels) began 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

Acuité has considered the standalone business and financial risk profiles of ARS Steel to arrive at the 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 establish and maintain a long and healthy relationship with both its customers and suppliers over the years.

Acuité 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.

#### **Comfortable Financial risk profile**

Financial risk profile of the company is comfortable with moderate net worth, low gearing and comfortable debt protection metrics. Tangible net worth of the company stood at Rs.168.20 crore as on 31<sup>st</sup> March 2022 (Prov.) as against 157.71 crore as on 31<sup>st</sup> March 2021. Increase in tangible net worth is on account of healthy accretion of profits to reserves. The company in FY22 has bought back 50 percent of its share capital and accordingly the share capital has reduced to Rs.5.34 crore as on 31<sup>st</sup> March 2022 (Prov.) as against Rs.10.47 crore as on 31<sup>st</sup> March 2021. Gearing of the company remained low at 0.08 times as on 31<sup>st</sup> March 2022 (Prov.) as against 0.05 times as on 31<sup>st</sup> March 2021. Debt protection metrics remain comfortable with Interest coverage ratio at 21.13 times in FY22 (Prov.) as against 10.09 times in FY21.

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

### **Weaknesses**

#### **Susceptibility of profitability to higher power cost and volatility in raw material prices**

The company has a power procurement agreement with its group company i.e. ARS Energy Pvt Ltd (AEPL) for procurement of more than 90 percent of the power required for the manufacturing process providing the required support in saving the power costs to some extent. However, AEPL has terminated its operations on account of classification as Non-performing Asset (NPA). Such termination of operation will require ARS steel to make alternative power purchase agreements likely at higher costs thereby impacting the profitability of the company. Further, the company operates in 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 3.69 percent in FY22 (Prov.), 4.70 percent in FY21 and 3.77 percent in FY20.

Acuité believes that the profitability of the company will remain exposed to higher power cost and 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

- Significant decline in profitability of the company
- Sustained growth in scale of operations
- Any stretch in working capital and deterioration in liquidity position

### Material covenants

None

### Liquidity: Adequate

Liquidity of the company is adequate reflected by adequate net cash accruals against no maturing debt obligation. Net cash accruals of the company has also seen a consistent improvement at Rs. 20.05 crore in FY22 as against Rs.17.33 crore in FY21. The operations of the company are efficiently managed marked by low GCA days of 66 days for FY22 (Provisional). Further, the working capital limits are utilized at only 36 percent in last six months ended October, 2022. The company maintains unencumbered cash balance of Rs. 0.82 crore as on 31st March 2022 (Prov.) and current ratio of the company stood at 1.79 times as on 31st March 2022 (Prov.)

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against no maturing debt obligations.

### Outlook: Negative

Acuité believes ARS Steel to maintain a 'Negative' outlook as the company's profitability will be impacted by higher power costs on account of alternative power purchase agreements required to be signed by the company. The rating may be downgraded in case of higher than expected deterioration in profitability of the company. The outlook may be revised to 'Stable' in case of sustained improvement in revenues while maintaining profitability at current levels.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	704.11	523.91
PAT	Rs. Cr.	16.13	13.40
PAT Margin	(%)	2.29	2.56
Total Debt/Tangible Net Worth	Times	0.08	0.05
PBDIT/Interest	Times	21.13	10.09

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

None

### 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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Sep 2021	Cash Credit	Long Term	21.00	ACUITE BBB+   Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB+   Stable (Assigned)
	Letter of Credit	Short Term	27.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	79.00	ACUITE A2+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE BBB   Negative   Downgraded   Stable to Negative
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB   Negative   Downgraded   Stable to Negative
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.50	ACUITE A2   Downgraded
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.50	ACUITE A2   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	53.00	ACUITE BBB   Negative   Downgraded   Stable to Negative

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### About Acuité Ratings & Research

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