

Press Release

Adhunik Corporation Limited

November 02, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.50 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 11.50 Cr bank facilities of Adhunik Corporation Limited (ACL). The outlook is '**Stable**'.

The rating on ACL takes into account the sound business risk profile of the group as reflected from the management's long track record in the steel industry and steady turnover levels. The rating also factors in the healthy financial position characterized by negligible debt and strong debt coverage indicators. These strengths are partially offset by the working capital intensive nature of their operations, moderate profitability and the cyclical nature of the steel industry.

About the company

Incorporated in 1996, Adhunik Corporation Limited (ACL) is a Kolkata based company, engaged in manufacturing of sponge iron and billets. The company is currently managed by Mr. Rama Shankar Gupta, Mr. Niket Agarwal, Mr. Sanjay Kaloya, Ms. Sonam Agarwal and Ms. Shilpi Modi. The company also has its own 4.00 MW wind farm plant at Dhule (Maharashtra), for which it has entered into a Power Purchase Agreement (PPA) with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for selling of power generated from wind farm.

About the group

The group constitutes of Adhunik Corporation Limited (ACL) and Incredible Industries Limited (IIL). ACL was incorporated in 1996 and IIL was incorporated in 1979. The group is engaged in the manufacturing of sponge iron, billets and TMT Bars. It runs under the directorship of Mr. Rama Shankar Gupta, Mr. Niket Agarwal, Mr. Sanjay Kaloya, Mr. Asit Baran Dasgupta, Ms. Sonam Agarwal and Ms. Shilpi Modi. The manufacturing facilities are located in Durgapur, West Bengal, running with an installed capacity of 60,000 MTPA for the DRI plant, 78,000 MTPA for their SMS unit and 1,70,000 MTPA for rolled products. The group sells its TMT bars of various sizes ranging from 6mm to 32 mm, under the brand name "Adhunik".

Incorporated in 1979, Incredible Industries Limited (IIL) is a Kolkata based company, listed with BSE, NSE and CSE. It is engaged in the manufacturing of rolled products. The manufacturing facilities are located in Durgapur, West Bengal, with an installed capacity of 1,70,000 MTPA for rolled products. The company is managed by Mr. Rama Shankar Gupta, Mr. Niket Agarwal, Mr. Sanjay Kaloya, Mr. Asit Baran Dasgupta, Ms. Sonam Agarwal and Ms. Shilpi Modi. The TMT bars manufactured by IIL are sold under their brand 'Adhunik'.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of ACL and IIL while arriving at the rating. 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

Long track record of operations and experienced management

The group has a long operational track record in the iron & steel industry for more than four decades. The board of directors of the group comprise of Mr. Rama Shankar Gupta, Mr. Sanjay Kaloya, Mr. Niket Agarwal, Mr. Asit Baran Dasgupta, Ms. Sonam Agarwal and Ms. Shilpi Modi. The directors have more than two decades of experience in the present business by virtue of their association with the group. Acuité believes that the long operational track record of the group along with the long experience of the management will continue to benefit the group going forward, resulting in steady growth in the scale of operations.

Sound business risk profile

The healthy business risk profile of the group is supported by the semi-integrated nature of operations, which enhances the operating efficiencies and mitigates the risks arising from the cyclical nature of steel industry to some extent. The revenue of the group remained at Rs. 487.73 Crores in FY21 (Provisional) as against Rs. 473.59 Crores in FY20. The improvement is driven by both rise in average realization of prices and sales volumes. Acuité believes that the sustainability in the revenue growth would be a key monitorable going forward. In addition to this, ACL has revenue from power purchase agreements (PPA) with Maharashtra State Electricity Distribution Company Limited (MSEDCL), which is renewed every year. Acuité believes that the PPA of ACL with MSEDCL provides steady albeit moderate revenue visibility, going forward.

Comfortable financial risk profile

The group's financial risk profile is marked by healthy net worth, low gearing and strong debt protection metrics. The tangible net worth of the group stood at Rs.262.45 Crores as on March 31, 2021 (Provisional) as against Rs.252.26 Crores as on March 31, 2020, on account of ploughing back of profits. Gearing of the group stood at comfortable levels at 0.30 as on March 31, 2021 (Provisional) compared to 0.14 as on March 31, 2020. The debt of Rs.77.95 Crores in FY 21 (Provisional) mainly consists of long term debt of Rs.39.73 Crores, working capital borrowing of Rs.33.39 Crores and current maturity of term loan of Rs.4.83 Crores. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.50 times as on March 31, 2021 (Provisional) as against 0.43 time as on March 31, 2020. The strong debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 3.76 times in FY 2021 (Provisional) as against 2.40 times in FY 2020 and Debt Service Coverage Ratio (DSCR) at 2.74 times in FY 2021 (Provisional) as against 2.02 times in FY 2020. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.23 times as on March 31, 2021 (Provisional). Acuité believes that going forward, the financial risk profile of the group will remain healthy backed by steady accruals in absence of any major debt funded capex plan.

Weakness

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 228 days as on March 31, 2021 (Provisional) as against 197 days as on March 31, 2020. The high GCA days are primarily on account of high inventory holding level of 113 days as on March 31, 2021 (Provisional) as compared to 125 days as on March 31, 2020. The high inventory days are on account of bulk purchases by the group to hedge themselves against price fluctuations. Further, the debtor period stood at 56 days as on March 31, 2021 (Provisional) as against 38 days in FY20. Acuité believes that the working capital requirement is likely to remain at similar levels in the medium term.

Moderate profit margin

The operating profit margin and net profit margin of the group stood moderate at 5.45 per cent and 1.67 per cent respectively, in FY21 (Provisional) as against 4.22 per cent and 0.55 per cent respectively, in FY20. The improvement in margin in FY 21 is mainly driven by the increase in the average realization of TMT bars because of growing demand from end user segments. Acuite believes the profitability of the group will remain at moderate levels over the medium term because of their relatively high selling expense and power cost.

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

- Growth 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 on account of the healthy net cash accruals of the group, which stood at Rs.17.80 Crores in FY 2021 (Provisional) as against long term debt repayment of Rs. 1.93 Crores during the same period. The cash accruals of the group are expected to remain in the range of Rs. 16.47 Crores to Rs. 18.57 Crores during FY 2022-24, as against long term debt obligations in the range of Rs. 4-6 Crores for the corresponding period. Further, the current ratio stood strong at 4.06 times as on March 31, 2021 (Provisional). The cash and bank balances of the group stood at Rs.6.55 Crores as on March 31, 2021 (Provisional). However, the fund based limit for the group were utilized at ~86 per cent over the twelve months ended July, 2021. The working capital intensive nature of operations of the group is marked by Gross Current Assets (GCA) of 228 days as on March 31, 2021 (Provisional) as against 197 days as on March 31, 2020. Acuité believes that going forward the group will continue to maintain adequate liquidity position owing to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the group will be 'Stable' over the medium term on account of the long track record of operations, experienced management, sound business risk profile and healthy financial risk profile. 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	487.73	473.59
PAT	Rs. Cr.	8.16	2.60
PAT Margin	(%)	1.67	0.55
Total Debt/Tangible Net Worth	Times	0.30	0.14
PBDIT/Interest	Times	3.76	2.40

Status of non-cooperation with previous CRA

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>
- 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
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Assigned)
Canara Bank	Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3+ (Assigned)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Kaustav Saha Assistant Manager- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research

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