Press Release

Adhunik Corporation Limited

January 05, 2023

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB | Stable | Reaffirmed	-
Bank Loan Ratings	1.50	-	ACUITE A3+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	11.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed 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 remains **'Stable'.**

Rationale for the rating

The rating reaffirmation of the group factors in the sound business risk profile marked by steady increase in turnover levels and long track record of operations. The rating also draws comfort from the healthy financial risk profile characterized by low gearing and comfortable debt protection metrics. The adequate liquidity position of the company and the management's long track record in the steel industry, further reassures the rating. However, these strengths are partially offset by working capital intensive nature of operations and cyclical nature of the steel industry

About the Company

Incorporated in 1996, ACL is a Kolkata based company engaged in the manufacturing of sponge iron and billets. The company runs under the directorship of Mr. Rama Shankar Gupta, Mr. Niket Agarwal, Mr. Sanjay Kaloya, Ms. Sonam Agarwal and Ms. Shilpi Modi. The manufacturing facilities are located in Durgapur, West Bengal, with an installed capacity of 60,000 MTPA for the DRI plant and 78,000 MTPA for their SMS unit. The requirement of power for their operations is met through West Bengal State Electricity Distribution Company Limited (WBSEDCL). 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 other group company, IIL was incorporated in 1979. The company engaged in the manufacturing of rolled products (TMT bars and wire rods). The company 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. It is listed with NSE, BSE and CSE. The manufacturing facilities are located in Durgapur, West Bengal, with an installed capacity of

1,70,000 MTPA for rolled products. The company procures the basic raw material i.e, billets majorly from ACL and therefore enjoys backward integration with the group company which is engaged in manufacturing of sponge iron and billets. The TMT bars manufactured by IIL are sold under their brand 'Adhunik'. The group markets its product via dealer network across various states of India including West Bengal, Bihar, Odisha and North-Eastern states.

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 long operational track record in the iron and steel industry for more than four decades. Further, the key promoter of the group, Mr. Rama Shankar Gupta has more than two decades of experience in the iron and steel industry. The promoters have established integrated nature of operations. Acuité believes that the long operational track record of the group coupled with the long experience of the management will continue to benefit the group going forward, resulting in steady growth in the scale of operations.

Steady business risk profile supported by integrated nature of operations

The group witnessed an improvement in its scale of operations marked by its revenue of Rs.532.70 Cr in FY2022 as against Rs.486.66 Cr in FY2021.The increase in the revenue is majorly driven by rise in average realization and increased sales volume of TMT bars in FY2022 buoyed by higher demand. The integrated nature of operations of the group enhances the operating efficiencies with presence in steel value chain right from sponge iron to rolled products. It provides the group with a flexibility to sell intermediate products and also, use them for captive consumption. The facilities are also supported by captive power plants, which result in cost efficiencies besides presence across value chain.

Even though there was significant increase in the raw material cost, the company managed to increase its operating margin due to better cost rationalization while reaping the benefits of integrated nature of operations. The power cost declined in FY2022 since the billet production reduced from 103 per cent to 86 per cent on account on maintenance of the plant for around a month. However, the PAT margin declined moderately to 1.54 per cent in FY2022 as against 1.68 per cent in FY2021 due to increased interest cost since the repayment of working capital term loan started since August 2020. Further, the group has achieved Rs.322.31 Cr (Prov) till September, 2022. However, the EBITDA margin of the group declined to 3.97 per cent for the six months ended FY2023 on account of high material cost, lower realisations and global headwinds. Acuite believes that the margins shall moderate in the medium term as the steel prices are expected to pick up with the end of monsoon, driving improvement in margin and average realisations. This coupled with rising infrastructure activity would continue to drive steel demand in India.

Healthy financial risk profile

The group's financial risk profile is marked by healthy networth, low gearing and comfortable debt protection metrics. The tangible networth of the group stood at Rs.263.56 Cr as on March 31, 2022 as against Rs.262.45 Cr in the previous year. Gearing of the group stood comfortable below unity at 0.27 times as on March 31, 2022 as against 0.30 times in the previous year. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.56 times as on March 31, 2022 as against 0.50 time in the previous year. The comfortable debt protection metrics of the group is marked by Interest Coverage Ratio (ICR) at 3.12 times and Debt Service Coverage Ratio (DSCR) at 1.90 times as on March 31, 2022 as compared to 3.76 times and 2.74 times respectively in the previous year. The repayment of working capital term loan started since August 2020 and hence the increased finance cost led to the decline of the coverage ratios in FY2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.25 times as on March 31, 2022. Acuité believes that going forward, the financial risk profile of the group will remain healthy backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations of the group is marked by high but improving Gross Current Assets (GCA) of 217 days as on March 31, 2022 as against 221 days in the previous year. The high GCA days are primarily on account of high inventory holding level of 112 days as on March 31, 2022 as compared to 113 days in the previous year as the group maintains inventory of raw materials to mitigate the price volatility. However, the debtor period improved and stood comfortable at 27 days as on March 31, 2022 as against 34 days in the previous year. Acuité believes that the working capital requirement is likely to remain at similar levels in the medium term.

Inherent cyclical nature of the steel industry

The group's performance remains vulnerable to cyclicality in the steel sector given the close linkage between the demand for steel products and the domestic and global economy. The end-user segments such as real estate, civil construction and engineering also display cyclicality. Further, operating margins are vulnerable to volatility in the input prices (iron ore and coal) as well as realisation from finished goods. The prices and supply of the main raw material, iron ore, directly impacts the realisations of finished goods. Any significant reduction in the demand and prices adversely impacting the operating margins and cash accruals of the group will remain a key monitorable. . However, Acuité believes the semi-integrated nature of operations of the group and locational advantage on account of the close proximity of both the plants, provides efficiency in terms of operations and mitigates the risks arising from the cyclical nature of steel industry to some extent.

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 net cash accruals of Rs.17.63 Cr as against long term debt repayment of Rs.4.84 Cr over the same period. Further, the current ratio stood comfortable at 3.40 times as on March 31, 2022. However, the fund based limit remained highly utilised at 90 per cent and the non-fund based limit at 80 per cent for eleven months ended September,2022. The cash and bank balance stood at Rs.0.10 Cr as on March 31, 2022. Moreover, the working capital intensive nature of operations of the firm is marked by high GCA days of 217 days as on March 31, 2022 as against 221 days in the previous year. Acuité believes that going forward the group will maintain adequate liquidity position due 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 group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position or delay in completion of its projects or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	532.70	486.66
PAT	Rs. Cr.	8.23	8.16
PAT Margin	(%)	1.54	1.68
Total Debt/Tangible Net Worth	Times	0.27	0.30
PBDIT/Interest	Times	3.12	3.76

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
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité 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.**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Nov 2021	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB | Stable (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	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A3+ | Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB | Stable | Reaffirmed

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.