

Press Release

Ecoplus Steels Private Limited

February 15, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	57.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	7.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	65.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3** (read as **ACUITE A three**) on the Rs.65.00 Cr bank facilities of Ecoplus Steels Private Limited (ESPL). The outlook is '**Stable**'.

The rating on ESPL is driven by the diversified experience of the promoters, company's speedy penetration into the market marked by scale up in the operations to around Rs.253 Cr in FY21 along with improved performance in the current financial year. Further, the rating draws comfort from the comfortable financial risk profile of the company and liquidity support from the management. However, the rating is partially constrained by the working capital intensity in ESPL's operations and fluctuating operating margins due to volatility in the input prices.

About the Company

Incorporated as Prime Gold Udyog Private Limited in 2008, ESPL was jointly promoted by Eco group and Prime Gold group in the ratio 70:30. In FY2016, Eco group fully took over the ownership of the company and changed its name to ESPL. The company is engaged in the manufacture of TMT bars, with an installed capacity of 100,000 MTPA. The operations are headed by the promoter directors, Mr. Bipin Kumar Agrawal and Mr. Sujit Agarwal. ESPL's plant is located at Mirzapur in UP, which commenced operations in 2015. While previously the company sold its product under Kay2 brand, as per agreement with Kamdhenu Ltd., however, from Nov'20 onwards, the company has started selling under its own brand "Ecoplus". The products are sold in UP, Bihar and Haryana through a network of dealers and distributors.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of ESPL to arrive at the rating.

Key Rating Drivers

Strengths

Diversified experience of the management

The promoters of the company, Mr. Bipin Kumar Agarwal and Mr. Sujit Kumar Agarwal have long diversified industry experience in cement and steel manufacturing. The company has successfully scaled up its operations within around 6 years of its operations and established itself as a strong brand under the Eco group. Acuité believes that the management's multifaceted manufacturing experience will support the company, going forward.

Comfortable financial risk profile

The company's comfortable financial risk profile is marked by healthy net worth, comfortable gearing and debt protection metrics. The net worth of the company stood at Rs.78.30 Cr as on 31 March, 2021 (prov.) as against Rs.75.23 Cr as on 31st March, 2020. Acuité has considered unsecured loans of Rs.40.00 Cr as part of networth as the management has undertaken to maintain the same in the business over the medium term. The gearing stood below unity at 0.74 times in FY2021 (prov.) as against 0.98 times in FY2020. TOL/TNW stood at 0.98 times in FY21 (prov.) as against 1.18 times in FY20. Further, comfortable debt protection is marked by interest coverage ratio (ICR) at 2.05 times and DSCR at 1.12 times in FY2021 (prov.). The NCA/TD stood at 0.12 times in FY2021 (prov.). Acuité believes that the financial risk profile of the company will improve over the medium term in the absence of any debt funded capex plan.

Favourable geographical location of plant

The manufacturing unit is strategically located at Chunar, Mirzapur in Uttar Pradesh, thus has a locational advantage in terms of its proximity to source of its raw materials. ESPL's finished good are majorly sold to real estate developers and TMT dealers in UP, Bihar and Haryana. Further, the company is also eligible for incentive package by the government, offered to the industrial units in Uttar Pradesh.

Weaknesses

Working capital intensive nature of operations

The working capital cycle of the company is intensive marked by GCA (Gross Current Assets) Days of 133 days in FY 2021 (prov.) as compared to 145 days in the previous period. High GCA days are on account of high amount of advances for goods. However, the debtor period is efficient at 54 days in FY21 (prov.) as compared to 55 days in FY20. Further, the inventory holding is also comfortable at 26 days in FY 2021 (prov.) as compared to 19 days in FY20. Acuité believes the working capital cycle will remain at similar levels over the medium term.

Susceptibility to volatility in raw material prices and cyclical nature inherent in the steel industry

Raw material consumption is the largest cost component for ESPL. The company does not have any backward integration for its raw materials and the same is procured from the market. Further, steel is a highly competitive industry due to low entry barriers that results in intense competition from the large number of organized and unorganized players present in the market. The company's performance remains vulnerable to cyclical nature in the steel sector as demand for steel depends on performance of end user segments.

Rating Sensitivities

- Growth in the scale of operations
- Elongation in working capital cycle
- Reduction in margins due to volatility in input prices

Material covenants

None

Liquidity Position: Adequate

The company has an adequate liquidity position marked by prepayment of its term debts to the tune of Rs.7.10 Cr in Aug-Sept'21, through release of FD of the same amount. The company has net cash accruals of Rs.6.84 Cr as against a debt obligation of Rs.5.30 Cr during the same period. The current ratio stood strong at 2.46 times and cash and bank balances stood at Rs.0.39 Cr in FY21 (prov.). Further, promoters have historically supported the company through extension of both long and short term unsecured loans, which is also evident from the current infusion of Rs.5.10 Cr unsecured loans in Dec'21. However, the fund based limits remained utilized at 97 percent for six months ended November, 2021. ESPL also availed a Covid loan of Rs.10.50 Cr. Acuité believes that the liquidity of the company will improve over the medium term due to steady net cash accruals.

Outlook: Stable

Acuité believes that the outlook of the company will remain stable over the medium term backed by its diversified promoter experience and comfortable financial risk profile. The outlook may be revised to 'Positive' if the company register a higher than expected growth in revenues while improving its operating profitability. Conversely, the outlook may be revised to 'Negative' in case of lower than anticipated revenues or further elongation in the working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	253.24	253.28
PAT	Rs. Cr.	3.07	2.74
PAT Margin	(%)	1.21	1.08
Total Debt/Tangible Net Worth	Times	0.74	0.98
PBDIT/Interest	Times	2.05	1.95

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

- Care Ratings, vide its press release dated Dec 24, 2021 had denoted the rating of Ecoplus Steels Private Limited as 'CARE B/Stable; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.50	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	8.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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