

## Press Release

### Ecoplus Steels Private Limited

April 07, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	57.50	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	7.50	-	ACUITE A3   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	65.00	-	-

## Rating Rationale

Acuité has reaffirmed 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**'.

### Rating Rationale

The rating continues to reflect the extensive experience of the management and a healthy financial risk profile. The rating also considers the healthy scale of operation coupled with an adequate liquidity position. However, these strengths are partially offset by the declining profitability margin and working capital intensive nature of operations.

### 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 Ecoplus Steels Private Limited (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 Uttar Pradesh, which commenced operations in 2015. While previously the company sold its product under 'K2' 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

Acuité 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 Agrawal 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 7-8 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.

### **Healthy scale of operation**

The revenue of the company witnessed a 38.06 per cent growth in FY2022, its revenue increased to Rs.349.63 crore in FY2022 as compared to Rs.253.24 crore in the previous year. This significant growth of the revenue is majorly due to the increase in average realization per unit during FY2022 backed by steady demand for rolled products globally. Further, the average realization of the rolled product has also improved during the 1<sup>st</sup> half of FY2023, however, the realization for rolled product has moderated globally from the second half of the current fiscal, which may lead to an overall decrease in the revenue during FY2023. The company has booked around Rs.166 crore of sales till 31<sup>st</sup> December 2022 (Prov.).

### **Above average financial risk profile**

The financial risk profile of the company is marked by modest net worth, comfortable gearing and comfortable debt protection metrics. The net worth of the company stood healthy at Rs.76.41 crore in FY 2022 as compared to Rs 73.23 crore in FY2021. This improvement in networth is mainly due to the retention of profit for FY2022. Acuité has also considered Rs.30.00 crore of unsecured loan as quasi equity, as the same amount is subordinated to bank debt. The gearing of the company stood at 0.94 times as on March 31, 2022 when compared to 1.00 times as on March 31, 2021. Interest coverage ratio (ICR) is comfortable and stood at 2.49 times in FY2022 as against 2.07 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood comfortable at 1.24 times in FY2022 as compared to 1.13 times in the previous year. The net cash accruals to total debt (NCA/TD) stood moderate at 0.11 times in FY2022 and 0.10 times in FY2021 respectively. Going forward, Acuité believes the financial risk profile of the company will remain healthy on account of steady net cash accruals over the near term and absence of any debt funded capex plan.

### **Weaknesses**

#### **Declining profitability margin**

The operating profitability margin of the company has decreased to 3.68 per cent in FY2022 as compared to 5.92 per cent in the previous year. This decrease in profitability is due to the increase in price of raw materials during FY2022. However, the operating profitability margin of the company has improved to 5.20 per cent till 31<sup>st</sup> Dec 2022 (Prov.). Acuité believes that the profitability margin of the company will remain at the same level backed by steady demand from the domestic market and stable realization.

#### **Working capital intensive nature of operation**

The working capital management of the company is marked by high gross current asset (GCA) days of 119 days as on 31<sup>st</sup> March 2022 as compared to 131 days in previous year. This high GCA day is mainly on account of the high other current assets, which mainly consisting of advance for goods & services, balance with revenue authorities and among others as on 31<sup>st</sup> March 2022. The debtor days stood moderate at 50 days as on 31<sup>st</sup> March 2022 as compared to 44 days in the previous year. The inventory days of the company stood comfortable at 32 days as on 31<sup>st</sup> March 2022 as compared to 25 days in the previous year. Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

### **Rating Sensitivities**

- Growth in the scale of operations while improving operating profitability.
- 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 comfortable net cash accruals of Rs.7.05 crore as against Rs.4.70 term debt obligations in FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 6.78 crore to Rs. 8.94 crore during 2023-24 as against Rs.4.53 crore long term debt obligations during FY2023 and Rs.3.13 crore of long-term debt obligations during FY2024. The current ratio of the company stood comfortable at 2.17 times in FY2022 (Prov.). The bank limit of the company has been ~47 percent utilized during the last six months ended in February 2023. The Gross Current Asset (GCA) days of the company stood relatively high at 119 days during 31<sup>st</sup> March 2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against the long debt repayments over the medium term.

## 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	349.63	253.24
PAT	Rs. Cr.	3.19	3.00
PAT Margin	(%)	0.91	1.18
Total Debt/Tangible Net Worth	Times	0.94	1.00
PBDIT/Interest	Times	2.49	2.07

## 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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Feb 2022	Proposed Cash Credit	Long Term	20.00	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	7.50	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.50	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BBB-   Stable (Assigned)
	Working Capital Demand Loan	Long Term	8.00	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
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A3   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	7.50	ACUITE BBB-   Stable   Reaffirmed

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### 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.

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