Press Release
Ecoplus Steels Private Limited
July 03, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	54.18	ACUITE BB+ | Stable | Downgraded	-
Bank Loan Ratings	10.82	-	ACUITE A4+ | Downgraded
Total Outstanding Quantum (Rs. Cr)	65.00	-	-

Rating Rationale

Acuité has downgraded the long-term rating at **"ACUITE BB+" (read as ACUITE double B plus)** from **"ACUITE BBB-" (read as ACUITE triple B minus)** and short-term rating at **"ACUITE A4+" (read as ACUITE A four plus)** from **"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'**.

Rationale for downgrade

The recommendation factors the decline in the company's scale of operations, marked by an operating income of Rs.215.43 Cr. in FY2023 as against Rs.349.63 Cr. in FY2022. The estimated operating revenue for FY2024 shows further dip and the same stood at Rs.124 Cr. Further the profitability of the company is susceptible to volatility in raw material prices and hence we saw volatile margins in the past few years. Additionally, the financial risk profile of the firm saw slight dip and remained moderate marked by gearing at 1.55 times as on March 31, 2023 as compared to 0.94 times in the previous year and the working capital management of the company is moderately intensive marked by GCA days of 161 days as on 31st March 2023. Further, the risks related to volatility in raw material prices and intense competition in the iron and steel industry is also taken into consideration.

About the Company

Incorporated as Prime Gold Udyog Private Limited in 2008, Ecoplus Steels Private Limited (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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Ecoplus Steels Private Limited to arrive at this 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 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.

Improved operating profitability margin

The operating profitability margin of the company increased to 4.6 per cent in FY2023 as compared to 3.7 per cent in the previous year however it still remains lower than their previous level of 5.92% in FY21. The fluctuation in profitability is directly related to the volatility in raw material prices and hence remains a key rating monitorable. The net profitability margin of the company has also increased to 1.53 per cent in FY2023 as compared to 0.91 per cent in the previous year however the same is on account of other income generated in FY23. Acuité believes that the profitability margin of the company will increase backed by recovery trends in demand as seen in past five months resulting into improved capacity utilization aiding to better absorption of fixed cost.

Weaknesses

Dip in scale of operation

The revenue of the company witnessed a 38 per cent decline in FY2023, its revenue decreased to Rs.215.43 crore in FY2023 as compared to Rs.349.63 crore in the previous year. Further, the estimated operating revenue for FY2024 is Rs.124 Cr. This decline is majorly due to lower TMT price by 8-12% during July to December in 2023 and dip in sales volume due to slowdown in retail demand in its area of operations.

Moderate financial risk profile

The financial risk profile of the company is marked by moderate gearing and debt protection metrics. The net worth of the company stood moderate at Rs.44.71 crore in FY2023 as compared to Rs. 41.41 crore networth and Rs. 30 crore quasi equity in FY2022. Adjusted networth of the company declined due to withdrawal of USL in FY 2023. ACUITE had considered Rs.30.00 crore of unsecured loan as quasi equity till FY2022 on the basis of undertaking given by the company however, post withdrawal the remaining USL is no longer being treated as quasi equity from FY23 onwards. The gearing of the company stood at 1.55 times as on March 31, 2023 as compared to 0.94 times as on March 31, 2022. Interest coverage ratio (ICR) is comfortable and stood at 3.63 times in FY2023 as against 2.49 times in FY2022. The debt service coverage ratio (DSCR) of the company also stood comfortable at 1.46 times in FY2023 as compared to 1.24 times in the previous year. The net cash accruals to total debt (NCA/TD) stood moderate at 0.12 times in FY2023 and 0.11 times in FY2022 respectively. Going forward, Acuite believes the financial risk profile of the company will remain moderate with absence of any debt funded capex plan.

Moderately Intensive Working Capital Operation

The working capital management of the company is moderately intensive marked by GCA days of 161 days as on 31st March 2023 as compared to 119 days in previous year. This increase in GCA days is on account of increased other current assets, which mainly consist of advance for goods & services, balance with revenue authorities and advance for others. Further, the debtor days stood moderate at 87 days as on 31st March 2023 as compared to 50 days in the previous year. On the other hand, the creditor days stood at 31 days as on 31st March 2023 as compared to 16 days in the previous year. The inventory days of the company stood comfortable at 22 days as on 31st March 2023 as compared to 32 days in the previous year. Acuité believes that the working capital operations are likely to remain moderately intensive in the near to medium term and ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Rating Sensitivities

- Significant growth in the scale of operations while improving operating profitability.
- Any further elongation in working capital cycle resulting into higher dependence on external debt or stretch in liquidity profile.
- Improvement in financial risk profile of the company.

Liquidity Position

Adequate

The company has adequate liquidity position marked by comfortable net cash accruals of Rs.8.10 Cr. as on 31st March 2023 against the debt repayment obligation of Rs.4.53 Crore over the same period. Going forward, the firm is expected to generate net cash accruals under the range of Rs.5 Crore to Rs.7 Crore against the debt obligations of Rs.1.6 Crore to Rs.3 Crore over the same period. The current ratio of the company stood comfortable at 1.49 times in FY2023. The bank limit of the company has been ~94 percent utilized during the last twelve months ended in April 2024. The Gross Current Asset (GCA) days of the company stood relatively high at 161 days in FY2023. Further, promoters have historically provided both long and short term funding support to the company however the unsecured loans post withdrawal stood at Rs.12.90 Cr in FY2023 as compared to Rs. 47.42 Cr. in FY 2022. The company has received interest free PICUP loan (The Pradeshiya Industrial & Investment Corporation of UP Limited) of Rs.10.82 crore as on 31st March 2022 from UP government with the repayment tenure of 7 years against the SGST paid by the company. Acuité believes that the liquidity of the company is likely to remain adequate on account of net 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 moderate financial risk profile. The outlook may be revised to 'Positive' if the company register a higher 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 or dip in liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	215.43	349.63
PAT	Rs. Cr.	3.29	3.19
PAT Margin	(%)	1.53	0.91
Total Debt/Tangible Net Worth	Times	1.55	0.94
PBDIT/Interest	Times	3.63	2.49

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

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, 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
07 Apr 2023	Bank Guarantee (BLR)	Short Term	7.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE BBB- | Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	7.50	ACUITE BBB- | Stable (Reaffirmed)
15 Feb 2022	Bank Guarantee (BLR)	Short Term	7.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BBB- | Stable (Assigned)
	Proposed Cash Credit	Long Term	20.00	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	4.50	ACUITE BBB- | Stable (Assigned)
	Working Capital Demand Loan (WCDL)	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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.82	ACUITE A4+ | Downgraded (from ACUITE A3)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	46.68	ACUITE BB+ | Stable | Downgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.50	ACUITE BB+ | Stable | Downgraded (from ACUITE BBB-)

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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.