

Press Release

Agrasen Sponge Private Limited

February 08, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	8.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	27.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 27.00 Cr bank facilities of Agrasen Sponge Private Limited (ASPL). The outlook is '**Stable**'.

Rationale for the rating

The rating factors in the healthy financial risk profile of the company characterized by low gearing and strong debt protection metrics. The rating also draws comfort from the long standing operations of the company and extensive experience of the promoters in the steel industry. The adequate liquidity position of the company, which is reflected in comfortable current ratio and adequate cushion in fund and non-fund-based limit utilization, also supports the rating. However, the rating remains constrained by working capital intensive nature of operations, high competition and susceptibility of operating margin to volatile input prices.

About the Company

Incorporated in 2003, Agrasen Sponge Private Limited is an Odisha based company promoted by Sri Raj Kumar Dadhich and Shree Murari Lal Sharma. The company undertakes manufacturing of sponge iron with an installed capacity of 60,000 MTPA. Its manufacturing facility is located in the Sundargarh district of Odisha. In order to diversify the business, the company got the manganese ore mines from Government of Odisha on 50 years lease basis since April, 2020. The mine is located at Katasahi, Keonjhar district of Odisha.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of ASPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The company has long operational track record in the manufacture of sponge iron for around two decades. Further, the promoters of the company including Mr. RAJ KUMAR DADHICH, and, Mr. MURARI LAL SHARMA have more than one and a half decades of experience in the iron and steel industry. Acuité believes that the long operational track record of the company coupled with the extensive experience of the management will continue to benefit the company going forward, resulting in steady growth in the scale of operations.

Healthy financial risk profile

The company's financial risk profile is marked by modest networth, low gearing and strong debt protection metrics. The tangible networth of the company increased to Rs.48.83 Cr as on 31st March 2022 from Rs.40.27 Cr in the previous year due to accretion of profits. Gearing of the company remained comfortable below unity at 0.30 times as on March 31, 2022 as against the same level in the previous year. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.55 times as on March 31, 2022 as compared to 0.62 times in the previous year. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 7.62 times and Debt Service coverage ratio at 2.47 times as on 31st March 2022, led by increase in earnings during FY2022. While the metrics are likely to moderate in FY2024 due to the future capex plan, they are likely to remain comfortable. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.68 times as on 31st March 2022 as against 0.71 times in the previous year. During FY2024, the company is planning to incur capex of ~Rs.217.38 Cr by adding new DRI plant, captive power plant, pellet plant, silico manages plant and MS Pipe Plant. Acuité expects while these new capex initiatives would increase the debt levels, healthy revenues and profits generated from the existing business are expected to adequately support the financial profile over the medium term, followed by limited debt repayment obligations.

Sound improvement in operating income and healthy profitability margins

The revenue of the company improved to Rs.113.54 Cr in FY2022 as against Rs.79.19 Cr in FY2021. The improvement is majorly driven by rise in average realization of sponge iron in FY2022. Also, the company started the mining activity in March 2022 which further adds to the revenue. Moreover, the average realization for sponge iron has also increased in the current year, which along with a healthy demand has helped the company to report a revenue of Rs.115.77 Cr till 9MFY23 (Prov). However, both the sales volume and average realization for manganese ore declined in the current year since the prices of the manganese ore was on the downward trend in the third quarter of FY2023. However, the prices have started to pick up in the fourth quarter as the market has begun receiving export enquiries.

The operating margin of the company has declined to 13.30 per cent in FY2022 as compared to 15.78 per cent in FY2021 majorly due to increase in other overhead cost like premium paid on leased mines. However, the EBITDA margin stood at 12.32 per cent in 9MFY2023. Further, the PAT margin has declined to 7.41 per cent in FY2022 as against 8.95 per cent in the previous year. However, the RoCE has improved to 22.75 per cent in FY2022 as against 19.53 per cent in the previous year. Acuité expects that the margins shall remain range bound in the medium term backed by recently diversified business into manganese ore mining and healthy demand for steel, driven by continued thrust on infrastructure development and pick-up in real estates and construction activities amid an overall economic revival.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked high albeit improving Gross Current Assets (GCA) of 167 days in FY2022 as compared to 213 days in FY2021 owing to efficient debtor's management. The high GCA days are mainly on account of high inventory holding period of 109 days in FY2022 as against 117 days in the previous year. The company maintains an inventory of raw materials of around three months to mitigate the raw material price volatility. However, the debtor period improved and stood comfortable at 8 days in FY2022 as compared to 33 days in FY2021. Acuité believes that the working capital operations of the company will remain almost at the same levels over the medium term as

evident from efficient collection mechanism.

Inherent cyclical nature of the steel industry

The company's performance remains vulnerable to cyclical nature 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 cyclical nature. Further, operating margins are vulnerable to volatility in the input prices as well as realisation from finished goods. The prices and supply of the main raw material, iron ore and coal, 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 company will remain a key monitorable.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins
- Further elongation in working capital cycle

Material covenants

None.

Liquidity Position

Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.10.07 Cr in FY2022 as against a long-term debt repayment of Rs.2.87 Cr over the same period. Further, the current ratio stood strong at 2.48 times as on 31st March, 2022 as compared to 2.39 times in the previous year. Moreover, the fund-based limit remained moderately utilised at 74 per cent and non-fund based limit at only 35 per cent for eight months ended December 2022. The cash and bank balance stood at Rs.3.00 Cr as on March 31, 2022. However, the company's working capital intensive nature of operations is reflected from high Gross Current Assets (GCA) of 167 days in FY2022 as compared to 213 days in FY2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on the company will be 'Stable' over the medium term on account of the long track record of operations, experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving improvement in operating margins 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 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.	113.54	79.19
PAT	Rs. Cr.	8.41	7.09
PAT Margin	(%)	7.41	8.95
Total Debt/Tangible Net Worth	Times	0.30	0.30
PBDIT/Interest	Times	7.62	6.30

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

BRICKWORK, vide its press release dated November 10, 2022 had denoted the rating of Agrasen Sponge Private Limited as 'BWR BB+/Stable/A4+; ISSUER NOT COOPERATING'.

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, Acuite 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
UCO Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE A3 Assigned
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
UCO Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.31	ACUITE BBB- Stable Assigned
UCO Bank	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.19	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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