

Press Release
Agrasen Sponge Private Limited
May 08, 2024
Rating Upgraded



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

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and also upgraded the short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 27.00 crore bank facilities of Agrasen Sponge Private limited (ASPL). The outlook is '**Stable**'.

Rationale for Rating Upgrade

The rating upgrade reflects the sustainable growth in the business risk profile and further improvement in financial risk profile. In FY2023, the revenue of ASPL was at Rs. 158.40 crore, a growth of 39.51 percent on a year-on-year basis. The revenues of the company for FY2024 were at Rs. 180.14 crore (Provisional). The turnover has improved with improvement in capacity utilization and profitable ramp-up in operations in FY2023 and in FY2024. The operating margin of the company has improved from 13.30 percent to 20.25 percent in FY2023 due to an overall reduction in the material cost.

Acuite also derives comfort from the financial risk profile of the company which continues to remain healthy, with gearing below unity and healthy debt coverage indicators led by consistent increase in the networth, due to healthy cash accruals over the years. In addition, the company has an adequate liquidity profile as reflected from its increasing net cash accrual, minimum debt repayment and healthy current ratio. The rating further draws comfort from ASPL's established track record of the company for more than one and a half decades in the iron and steel industry along with a reputed clientele of the company. However, the rating remains constrained by working capital intensive nature of operations inherent cyclical nature of the steel industry.

About the Company

Incorporated in 2003, Agrasen Sponge Private Limited is an Odisha based company promoted by Mr. Raj Kumar Dadhich and Mr. 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.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record and extensive experience of promoters

The company has a 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. The company has been able to maintain healthy relationship with both its customers and suppliers. 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 financial risk profile of the company is marked by healthy net worth, comfortable gearing, and debt protection metrics. The net worth of the company stood healthy at Rs.69.83 crore in FY2023 as compared to Rs.48.83 crore in FY2022 due to high accretion to reserves. The gearing of the company stood healthy at below unity levels 0.32 and 0.30 times in FY2023 and FY2022 respectively. Interest coverage ratio (ICR) is strong and stood at 17.07 times in FY2023 as against 7.62 times in FY2022. The debt service coverage ratio (DSCR) of the company also stood healthy at 6.21 times in FY2023 as compared to 2.47 times in the previous year. Further, Debt-EBDITA has improved and stood at 0.70 times in FY2023 as against 0.96 times on FY2022. Acuité believes that the financial risk profile of the ASPL will continue to remain healthy at the back of healthy accruals leading to comfortable capital structure and improved debt protections metrics over the medium term.

Weaknesses

Elongation of working capital cycle

The company has increasing working capital of operations as reflected from 204 days of GCA days in FY2023 as against 167 days in FY2022. Inventory days have increased to 199 days in FY2023 as against 109 days in FY2022, mainly because the company stocks up more raw materials to gauge and derive benefit from volatility of pricing. The company remains exposed to inherent cyclical nature in steel sector which impacts its policy on inventory holding. Debtor days has improved to only 2 days in FY2023 as compared to 8 days in FY2022. Moreover, the company's creditor days stays at similar levels at 24 days in FY2023 as compared to 25 days in FY2022. The working capital limits utilized at ~ 79 percent for 12 months ended March 2024 and current ratio stood comfortably at 2.19 times for FY2023. Acuité believes that the working capital cycle is likely to improve over the medium term.

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 while maintaining profitability
- Further elongation in working capital cycle
- Larger than expected capex

Liquidity Position

Adequate

The company's liquidity is adequate backed by its Net Cash Accruals (NCA) of Rs. 22.70 crore as against Long-Term Debt Repayment of Rs. 2.08 crore in FY2023. Additionally, the current ratio stood comfortably at 2.19 times in FY2023 as against 2.48 times in FY2022. The working capital limits are utilized ~ 86 percent for 12 months ended March 2024. The cash and bank balance stood at Rs. 0.02 crore as on FY2023. Acuité expects liquidity profile of the company to remain healthy due to sufficient accruals, moderate utilisation of bank lines and healthy current ratio over the medium term.

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 maintaining the operating margins and improving the 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	158.40	113.54
PAT	Rs. Cr.	20.85	8.41
PAT Margin	(%)	13.16	7.41
Total Debt/Tangible Net Worth	Times	0.32	0.30
PBDIT/Interest	Times	17.07	7.62

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, 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Feb 2023	Bank Guarantee (BLR)	Short Term	8.50	ACUITE A3 (Assigned)
	Covid Emergency Line.	Long Term	3.31	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.19	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
UCO Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.50	ACUITE A3+ Upgraded (from ACUITE A3)
UCO Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
UCO Bank	Not avl. / Not appl.	Covid Emergency Line.	14 Dec 2021	Not avl. / Not appl.	30 Nov 2026	Simple	1.44	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
UCO Bank	Not avl. / Not appl.	Covid Emergency Line.	25 Aug 2020	Not avl. / Not appl.	31 Aug 2024	Simple	0.75	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.31	ACUITE BBB Stable Upgraded (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.

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