

Press Release

AIC Iron Industries Private Limited

April 19, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	121.73	ACUITE A- Stable Assigned	-
Bank Loan Ratings	11.75	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	133.48	-	-

Rating Rationale

ACUITE has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.133.48 Cr bank facilities of AIC Iron Industries Private Limited (AIPL). The outlook is '**Stable**'.

Rating Rationale

The assigned rating is driven by an improvement in the overall business risk profile of the company marked by increase in the operating income and steady profitability arising from improved realizations. The rating also factors in its experienced management, efficient collection mechanism and the healthy financial risk profile of the company characterized by steady debt coverage indicators. These strengths are, however, partly offset by the cyclical nature of the steel industry and the volatility in commodity prices.

About the Company

AIC Iron Industries Private Limited (AIPL) was incorporated in December 2003. In February 2008, the company was taken over by Adukia group of West Bengal. The company is presently engaged in manufacturing of Billets and MS Strips/pipes with installed capacity of 102000 MTPA and 100000 MTPA respectively. Its manufacturing facility is located at Purulia (West Bengal). The group is undertaking capex towards expansion and capacity enhancement. It is setting up sponge iron plant (1,05,000 MTPA) and Power plant (22.5 MW) in AIPL. This project is expected to be completed by April 2023.

About the Group

Incorporated in 2004, N N Ispat Private Limited (NNIPL) manufactures billets and thermo-mechanically treated (TMT) steel. The manufacturing facility is located in Burdwan district of West Bengal with installed capacity of 200,000 MTPA of billets and 2,36,000 MTPA of TMT.

Incorporated in 2003, RAIC Integrated Sponge And Power Private Limited (RISPPL) manufactures sponge iron, billets, TMT steel and silico manganese at its facility in Burdwan district, West Bengal. Unit has installed capacity of 225,000 tonne per annum (MTPA) of sponge iron, 137,000 MTPA of billets, 150,000 MTPA of TMT steel, 6,000 MTPA of silico manganese and captive power plant with a capacity of 18.5 MW.

Analytical Approach

Extent of consolidation

Full consolidation

Rationale for consolidation or Parent/Group/Govt. support

ACUITE has considered the consolidated financials of NN Ispat Private Limited (NNIPL), AIC Iron Industries Private Limited (AIPL) and Raic Integrated Sponge And Power Private Limited (RISPPL). The consolidation is on account of the common management, same line of operations and significant operational and financial fungibility.

Key Rating Drivers

Strengths

Long operational track record and experienced management

The promoters of the AIC group, the Adukia family of West Bengal have more than two decades of experience in the iron and steel industry. Extensive experience of the promoters has helped them in understanding the market dynamics & establishing strong relationship with their customers & suppliers. The overall affairs of the AIC group are being managed by Mr. Dinesh Adukia along with his brothers. The promoters are resourceful and have also supported the group companies by infusing unsecured loans as and when required to support the business operations. Acuite believes that the long track record of operations will benefit the company going forward, resulting in steady growth in the scale of operations.

Steady growth in revenues along with healthy profitability levels

Total operating income of AIC group has increased at a CAGR of ~36% over FY20-FY22 driven by expansion of manufacturing facility for sponge iron, billet, silico manganese, TMT and other rolled steel products. Besides, the group has been able to scale up operations due to stabilisation and increase in capacity utilisation across all its product segment. The group has witnessed sharp improvement in the scale of operation as reflected from its revenue of Rs 1,718.09 Cr in FY22 as against Rs 1,189.38 Cr in FY21. The average realization and sales volume of both intermediate and finished products had witnessed improvement because of rising demand from end user segments. The revenue growth is expected to continue in FY23 as the group has already achieved revenue of Rs 1,590 Cr till December 2022 (prov). This growth is driven by addition of sponge iron capacity in RISPPL with steady realization of steel products. With installed capacity likely to see steady growth, from FY24, utilisation and production growth will drive revenue growth even in a moderating price scenario. Importantly, the mix will be richer, with higher share of steel and sponge iron. Acuite believes the scale of operation will improve over the medium term backed by rise in sale of value added steel products such as TMT, MS Strips / Pipe where realizations are higher in comparison to intermediate goods such as Sponge Iron and Billet.

The group has reported a steady EBITDA margin of 6.39 per cent in FY2022 as against 7.54 per cent in FY2021, supported by backward integration measures and economies of scale benefits. The group has registered EBITDA margin of 6.6 percent during 9MFY23(Prov). The PAT margins stood at 2.43 per cent in FY2022 as against 2.89 per cent as on FY2021. The RoCE levels stood at a comfortable level of about 15.57 per cent in FY2022 as against 15.33 per cent in FY2021. Acuite believes that the sustainability in the revenue growth and profitability margins would be a key monitorable going forward.

Healthy financial risk profile

The financial risk profile of the company is marked by healthy net worth, steady gearing and debt protection metrics. The tangible net worth of the company improved to Rs.244.66 Cr as on March 31, 2022 from Rs.197.47 Cr as on March 31, 2021 due to accretion of reserves. Acuite has considered unsecured loans of Rs.44.40 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the company stood at 1.44 times as on March 31, 2022 as compared to 1.30 times as on March 31, 2021, although there was some increase in the debt levels in FY2022 due to the higher working capital requirements and capex commitment for its sponge iron unit in RISPPL.

The group is undertaking capex towards expansion and capacity enhancement. It is setting up sponge iron plant (105,000 MTPA) and Power plant (22.5 MW) in AIPL. This project is expected to be completed by April 2023. Moreover, the group has already successfully commissioned and started the commercial production of sponge iron (120000 MTPA) and power plant (18.5 MW) in January 2022 in RISPL. The project is to be funded through bank loans of Rs 62 crore, promoter's contribution of Rs 27 crore. Out of its initial capex of Rs 89.10 crore, the company has spent 84.54 crore as on March FY23.

Acuité notes that the group has been regularly incurring capex in the last few years for improving the share of value added products in the overall revenue & profitability mix and foraying into backward integration. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.21 times as on 31st March, 2022 as against 1.83 times as on March 31, 2021. Interest Coverage Ratio at 4.57 times and Debt Service coverage ratio at 2.18 times as on 31st March, 2022 as against 4.41 times and 2.50 times as on March 31, 2021. Calibrated capex undertaken by the group over the past years, funded through internal accruals, unsecured loan along with debt, has also helped it maintain steady leverage. Commensurate returns from the planned capex in the form of backward integration and optimal capacity utilisation will remain key credit monitorable for the group. Acuité expects the leverage and coverage indicators to remain healthy in FY23 and improve over the medium term further on the back of surge in earnings further boosting the profitability of the company.

Efficient working capital management

The group has a comfortable working capital requirement as reflected from 94 days of GCA days in FY22 as against 79 days in FY21. In FY22, group had witnessed an increase in inventory days to 49 days from 30 days in FY21 as the group needs to maintain raw material inventory (iron ore coal stock) for uninterrupted production and to mitigate the raw material price fluctuations risk. Acuité believes working capital requirement is likely to remain similar in medium term.

Weaknesses

Intense competition and inherent cyclical nature of the steel industry

The company is exposed to intense competitive pressures from large number of organised and unorganised players along with its exposure to inherent cyclical nature of the steel industry. Additionally, prices of raw materials and products are highly volatile in nature.

Rating Sensitivities

Sustainability in revenue growth and profitability margins

Elongation of working capital cycle

Material covenants

None.

Liquidity Position

Adequate

The company's liquidity position is adequate marked by high net cash accruals of Rs.71.74 Cr as on March 31, 2022 as against long term debt repayment of Rs.19.60 Cr over the same period. The company has cash and bank balances of around Rs.0.47 Cr as on 31st March, 2022 as compared to Rs. 5.59 Cr as on March 31, 2021. The current ratio stood comfortable at 1.29 times as on March 31, 2022 as compared to 1.37 times as on March 31, 2021. The fund based limit remains utilised at 70 per cent over sixteen months ended February, 2023. The working capital cycle of the company is efficient marked by Gross Current Assets (GCA) of 94 days as on 31st March 2022 as compared to 79 days as on 31st March 2021. Going forward, Acuité believes the liquidity position of the company will be sustained marked by enhanced net cash accruals.

Outlook: Stable

Acuité believes that the outlook on AIC group will be 'Stable' over the medium on account of the long track record of operations, experienced management, sound business position, healthy financial risk profile and efficient working capital management. The outlook may be

revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' if the group witnesses significant deterioration in financial risk profile or liquidity profile due to higher than expected debt led capex plan.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1718.09	1189.38
PAT	Rs. Cr.	41.75	34.33
PAT Margin	(%)	2.43	2.89
Total Debt/Tangible Net Worth	Times	1.44	1.30
PBDIT/Interest	Times	4.57	4.41

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

Care Ratings vide its press release dated 20.04.2022, had reaffirmed the company to CARE BB+/A4+ (Stable) ; INC.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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

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	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A- Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A- Stable Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A- Stable Assigned

TATA Capital Financial Service Ltd.	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	7.98	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+ Assigned
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.75	ACUITE A2+ Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	18.87	ACUITE A- Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.65	ACUITE A- Stable Assigned
TATA Capital Financial Service Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	44.23	ACUITE A- Stable Assigned

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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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