



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Agarwal Induction Furnace Pvt. Ltd

April 09, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities	15.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Short Term Non Fund Based Facilities	15.00	IVR A3 (IVR A Three)	Reaffirmed
Total	30.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Agarwal Induction Furnace Pvt. Ltd (AIFPL) continues to derive comfort from its experienced promoter with long track record, strategic plant location, improvement in scale of operations along with improvement in debt protection metrics in FY19, satisfactory gearing and satisfactory working capital management. However, these rating strengths are continues to remain constrained by volatility in the prices of its raw materials and finished goods, client concentration risk, exposure to foreign exchange fluctuation risk, geographical concentration risk, high competition and cyclicity in the steel industry. The ratings also notes expected moderation in AIFPL's profitability in the near term.

Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Sustenance of capital structure with TOL/TNW to remain below 2x
- Continuance of prudent working capital management and improvement in liquidity with utilisation of average working capital borrowings to remain below 90% on a sustained basis



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Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators
- Moderation in the capital structure and/or debt protection metrics marked by deterioration in TOL/TNW to over 3x and interest coverage ratio to below 1.5x
- Deterioration in working capital management affecting the liquidity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoter with long track record**

AIFPL was promoted by one Mr. Vinod Kumar Agarwal in the year 2008. Mr. Agarwal has more than three decades of experience in the iron and steel industry. Over the years of its operation, the company has established its presence in billet manufacturing segment in the state of Andhra Pradesh. Currently, Mr. Agarwal (Managing Director) is at the helm of affairs of the company.

- **Strategic plant location**

AIFPL is part of VRKP group formed by Mr. Vinod Kumar Agarwal. The other major companies/firms of the promoters are, VRKP Steel Industries Private Limited (VRKPL- rated IVR BBB-/Stable), the flagship company of the group, engaged in manufacturing of TMT Bars and VRKP Sponge and Power Plant LLP (VSPPL) engaged in manufacturing of sponge iron, billets, and TMT bar with a captive 10MW power plant. AIFPL and VSPPL both are mainly part of VRKP group's backward integration initiative. Further, the plant is very well connected with other nearby places through roadways.

- **Improvement in scale of operations in FY19 albeit profitability is expected to be moderated in FY20**

During FY19, the total operating income (TOI) has improved further by ~18% to Rs.237.77 crore over FY18 on the back of increase in ANSPR. The profit margins of the company also further improved with EBITDA margin and PAT margin at ~6% and ~3.5% respectively during FY19. The improvement in EBITDA margin was driven by higher absorption of overheads due to increase in capacity utilisation along with increase in average sales realisation. With improvement in EBITDA along with sharp reduction in finance cost due to reduction in long-term debt level and lower utilisation of bank borrowings led to steady



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increase in PAT margin in FY19. During 11MFY20, the company has achieved a TOI of ~Rs.234 crore. However, the profit margins are expected to deteriorate in FY20 due to fall in price of its finished goods, billets, with respect to the marginal increase in its raw material price like sponge iron and scrap etc.

- **Satisfactory gearing and improvement in debt protection metrics in FY19**

The capital structure of the company continued to remain satisfactory with improvement in leverage ratios backed by reduction in long-term debt level and lower outstanding of working capital borrowings as on March 31, 2019. The long-term debt equity ratio and the overall gearing ratio stood comfortable at 0.09x and 0.27x respectively as on March 31, 2019 (0.25x and 0.90x as on March 31, 2018). Total debt / Net worth was also stood comfortable at 1.65x. Reduced debt levels with improvement in profitability fueled the improvement in debt protection metrics of the company. The interest coverage ratio and Total debt to GCA improved from 3.87x and 2.49x respectively in FY18 to 6.62x and 0.85x respectively in FY19.

- **Satisfactory working capital management**

The company has prudently managed its working capital requirements and improve its collection period from around two months in FY18 to around one month in FY19. Steady improvement in average collection period also led to improvement in the operating cycle and consequent lower utilisation of bank borrowings. Though the current ratio continued to remain below unity, the average utilisation of its working capital borrowings remained satisfactory at about~68% during last 12 months ending on February 2020.

Key Rating Weaknesses

- **Volatility in the prices of raw materials and finished goods**

The price of steel has seen a lot of volatility over the last three years. The rise in raw material prices in FY19 is in the same range than that of the rise in finished goods prices. However, the increase in volume, as well as stabilization of overheads due to economies of scale, has led to increase in EBIDTA margin during the year.



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- **Client concentration risk**

AIFPL is a backward integration initiative of VRKPL. 70-80% of the goods are sold to VRKPL, which indicates client concentration risk. The company's performance is largely based on the performance of VRKPL.

- **Foreign exchange fluctuation risk**

The company imports coal from South Africa. The total foreign currency exposure of AIFPL was unhedged, as there is no hedging policy in the company. Thus, Dollar appreciation will have an adverse impact, though limited, on the profitability.

- **Geographical concentration risk**

AIFPL mainly caters to the state of Karnataka and Andhra Pradesh which contributed ~100% of its sales in FY19. Hence, the company is exposed to geographical concentration risk.

- **High competition and cyclicity in the steel industry**

AIFPL mainly operates in the State of Karnataka and faces stiff competition from not only established players, but also from the unorganised sector due to low level of product differentiation. The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including AIFPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the demand-supply dynamics in the real estate sector.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

AIFPL has earned a gross cash accruals of Rs.9.87 crore in FY19. Further, the company is expected to earn a gross cash accruals of ~Rs.4.90 crore as against its debt repayment obligations of Rs.2.75 crore in FY20. Thereafter, with no new debt avilment plan the long-term loan repayment obligation is expected to become insignificant for FY21 and FY22.



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Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. However, any unplanned capex may affect the liquidity position of the company. Further, the average cash credit utilisation of the company remained moderate at ~68% during the past 12 months ended February 2020 indicating a satisfactory liquidity cushion.

About the Company

Incorporated in July 31, 2008, Bangalore based Agarwal Induction Furnace Pvt. Ltd. (AIFPL) (Formerly Known as Surbhi Steel Private Limited) was promoted by one Mr. Vinod Kumar Agarwal. AIFPL is engaged in manufacturing of mild steel billet (about ~88% of TOI in FY19) and trading of coal and mild steel sections. The manufacturing facility of the company is located at Anantapur, Andhra Pradesh with current installed capacity of 1,08,000 MTPA after completing expansion in December 2019.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	201.02	237.77
EBITDA	11.14	14.36
PAT	3.87	8.23
Total Debt	20.25	8.43
Tangible Net worth	22.42	30.65
EBITDA Margin (%)	5.54	6.04
PAT Margin (%)	1.92	3.45
Overall Gearing Ratio (x)	0.90	0.27

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	15.00	IVR BBB-/Stable	-	IVR BBB-/Stable (March 27,	-



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						2019)	
2.	LC	Short Term	15.00	IVR A3	-	IVR A3 (March 27, 2019)	-
3.	BG	Short Term	1.86*	IVR A3	-	IVR A3 (March 27, 2019)	-

*Sublimit of LC

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	-	-	-	15.00	IVR BBB- /Stable
Short Term Non Fund Based Limits- LC	-	-	-	15.00	IVR A3
Short Term Non Fund Based Limits- BG	-	-	-	1.86*	IVR A3

*Sublimit of LC