



Infomerics Valuation And Rating Pvt. Ltd.

Press release

Pilania Industries India Private Limited April 07, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facilities	17.00	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)
	Total	17.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Pilania Industries India Private Limited (PIIPL) derives comfort from its experienced promoter along with fund infusion by them to support the business operations, strategic location of plant along with satisfactory capacity utilisation, sustained improvement in scale of operations and satisfactory debt protection metrics with minimal debt repayment obligations. The rating also positively considers its strong growth in operation in FY19 and 10MFY20. These rating strengths are partially offset by susceptibility of its profitability to volatility in raw material prices and finished goods, intense competition in the operating spectrum, working capital intensive nature of operation leading to moderate capital structure and cyclical nature in the steel industry.

Key Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in capital structure with overall gearing remain less than 1.2x

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis and subdued industry scenario
- Deterioration in working capital management impacting the liquidity and moderation in overall gearing to more than 2 times.



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- Any unplanned debt funded capex impacting the overall financial risk profile and/or liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter and fund infusion**

The promoters have over three decades of experience in the iron and steel industry. Mr Ram Bhagat Agrawal (director) is at the helm of affairs of the company with support from other three directors and a team of experienced professionals. Furthermore, the company has started operation from 2010, thus having about a decade of operational track record. The promoters infused equity during FY19 aggregating to Rs.3.79 crore to support the business. Currently, Mr Ram Bhagat Agrawal (Director) is at the helm of affairs of the company along with other three directors and a team of experienced personnel.

- **Strategic location of plant along with satisfactory capacity utilisation**

The manufacturing facilities of PIPL is at Heavy Industrial Area, Hathkoj, Bhilai, Chhattisgarh. Chhattisgarh is known as steel hub and the manufacturing facility of the company is in close proximity to various other manufacturers of ingots, billets, sponge iron, pig iron and iron scrap. Accordingly, proximity to the source of raw materials & end user market provides a competitive edge to PIPL. Further, sourcing of raw materials like coal from nearby coal mines is not an issue for the company. Presence in steel belt reduces the business risk to an extent. This apart, capacity utilisation was satisfactory and the same was over ~73% during FY19 and ~66% in H1FY20.

- **Sustained improvement in scale of operations**

The total operating income (TOI) of the company registered a CAGR of ~72% during FY17-FY19 with a y-o-y growth of ~81% in FY19. The growth was driven by gradual increase in sales volume and sales realisations during the aforesaid period. Notwithstanding the growth in operations the profit margins of the company remained range bound and thin in the aforesaid period. During 10MFY20, the company has earned a TOI of ~Rs.240.00 crore.



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- **Satisfactory debt protection metrics with minimal debt repayment obligations**

The debt protection metrics of the company remained comfortable marked by healthy interest coverage ratio at 3.16x in FY19. The interest coverage ratio witnessed steady improvement from 2.31x in FY18 driven by healthy improvement in EBITDA level in FY19. Moreover, gross cash accruals also improved from Rs.3.21 crore in FY18 to Rs.4.39 crore in FY19. Total debt to GCA has though increased from 3.80 years in FY18 to 4.39 years in FY19 due to increase in working capital borrowings to support its enhanced scale of operations. However, the company has minimal long-term debts in its capital structure thereby has minimal long-term debt repayment obligations in FY20 which imparts comfort. Infomerics expects that the debt protection metrics will continue to remain satisfactory in the near term. However, any unplanned debt funded capex may affect the debt protection metrics.

Key Weaknesses

- **Susceptibility of profitability to volatility in raw material prices and finished goods**

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. Major raw materials required for the company are billets and ingots and Power. Raw-material cost accounted over 90% of total cost of sales in the last three fiscals. The company lacks captive power and backward integration for its basic raw-materials and has to procure the same from the open market. PIPL procured raw materials mainly from local manufactures. Since the raw material and power is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices and power tariffs. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.



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- **Intense competition**

The PIPL mainly operates in Chhattisgarh and nearby states, which is a hub of steel plants and comprise many steel players with limited product differentiation in the downstream steel segment. Intense competition restricts the pricing flexibility of the companies.

- **Working capital intensive nature of operation leading to moderate capital structure**

The capital structure of the company remained moderate mainly due to its working capital intensive nature of operation and higher reliance on bank borrowings to fund its working capital requirements. The adjusted net worth (ANW) stood at of Rs.12.69 crore as on March 31, 2019. To arrive at the net worth, Infomerics has considered Rs.3.63 crore of unsecured loans from the promoters/ directors as quasi-equity as the same is subordinated to the bank facilities. With steady accretion of profit to net worth and infusion of equity, the overall gearing ratio improved from 1.61x as on March 31, 2018 to 1.51x as on March 31, 2019 though continued to remain moderate. However, with minimal long-term debt in the capital structure, the debt equity ratio remained comfortable at 0.05x as on March 31, 2019. Further, total indebtedness of the company marked by TOL/ANW remained satisfactory at 2.52x as on March 31, 2019. However, the average utilisation of fund based working capital limits stood high at ~91% during the trailing 12 months ended December, 2019.

- **Cyclicality in the steel industry**

The domestic steel industry is cyclical in nature and is likely to impact the cash flows of the steel players, including PIPL. 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



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

PIPL has earned a gross cash accruals of Rs.4.39 crore in FY19. Further the company is expected to earn a gross cash accruals in the range of ~Rs.5-7 crore as against minimal debt repayment obligation. 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 high at ~91% during the past 12 months ended December, 2019 indicating a moderate liquidity cushion.

About the Company

One Agarwal family of Chhattisgarh incorporated Pilania Industries India Private Limited (PIIPL), in 2006 in Bhilai (Chhattisgarh). PIIPL commenced its manufacturing operations from May 2010 onwards. PIIPL primarily engaged in manufacturing of TMT bars. The company has its manufacturing facilities located at Heavy Industrial Area, Hathkoj, Bhilai with installed capacity of 1,05,000 MTPA and sells its products under the brand name of “Ultra Care”.

Financials: Standalone

For the year ended*/As on	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	157.88	285.53
EBITDA	4.47	6.50
PAT	1.51	2.60
Total Debt	12.19	19.29
Tangible Net worth	2.77	9.16
Adjusted Net worth	7.59	12.79
EBITDA Margin (%)	2.83	2.28
PAT Margin (%)	0.95	0.91
Overall Gearing Ratio (x)	1.61	1.51

**As per Infomerics' standards*



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Status of non-cooperation with previous CRA: The Company has rating from CRISIL (PR dated February 27, 2020) and CARE (PR dated December 30, 2019) under INC category for not sharing required information for annual review.

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.	Overdraft	Long Term	17.00	IVR BBB- /Stable	-	-	-

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 Bank Facilities-Overdraft	-	-	-	17.00	IVR BBB- /Stable