Press Release

Aarti Sponge and Power Limited

August 22, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities	176.12	IVR BBB+ / Stable Outlook	Reaffirmed	Simple
Short Term Fund Based Bank Facilities	40.50	IVR A2	Reaffirmed	Simple
Total	**216.62 (Two Hundred Sixteen Crore and Sixty-Two Lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings to the bank facilities of Aarti Sponge and Power Limited (ASPL) continues to draw comfort from its extensive experience of promoters and established track record of operations of the company. The ratings also factor in integrated operations, i.e. ability to manufacture all the products in the steel chain like Sponge Iron, Billets and rolled products, increasing scale of operations, comfortable financial risk profile and comfortable operating cycle.

However, these strengths are partially offset by susceptibility of operating margin to volatility in raw material prices and finished goods and Intense competition and limited pricing flexibility in steel industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters and established track record of operations

Aarti Sponge and Power Limited is promoted by Mr. Rajeev Kumar Agrawal, Mr. Sriprakash Mandal, Mr. Manish Kumar Mandal and Mr. Rajiv Mundra. The Promoters have rich experience of almost two decades in the steel industry and are also associated with real estate and infrastructure development through a group company. Further, Company has an operational track record of almost 18 years. Longstanding presence of the promoters in the industry has helped the company to establish strong relationships with customers and suppliers, withstand industry cycles, diversify the product profile, and expand capacity.

Integrated steel unit

The Company is a fully integrated steel unit, i.e. the company manufactures all the products in the steel chain like Sponge Iron, Billets and rolled products which enables the company to withstand the cyclical nature of the steel industry. Company has wire rod mill with production capacity of 150000 MTPA. This was installed under its forward integration plans and has been operational since FY2021. The Company has also installed wire drawing unit which is forward integration of the wire rod unit. Also, the company installed 8MW WHRB captive power plant in August 2017 to utilize the complete generation of power through waste flu which results in significant cost savings to the company. The Company was allotted mining lease (at Village Alnar, District- South Bastar; a total area of 31.55 hectares) for iron ore mining in Chhattisgarh state. The lease deed with government authorities has already been executed during the first week of January, 2017. The operation in the mines is however yet to begin. Once they become operational, the requirements of iron ore of the company will be met from its own mines and this will ensure smooth flow of raw material to the plant without any delay.

Increasing Scale of Operations

The Scale of operations is increasing continuously over the last 5 years except marginal decline in FY20. The Total Operating Income Increased Y-o-Y by 119% in FY22(Prov.) i.e. from Rs. 461.76 Crore in FY21 to Rs. 1010.71 Crore in FY22(Prov.). It mainly increased due to significant increase in sale of wire rods. EBITDA increased from Rs. 35.38 Crore in FY21 to Rs. 46.45 Crore in FY22(Prov.). PAT increased from Rs. 8.33 Crore in FY21 to Rs. 17.39 Crore in FY22(Prov.) which is a Y-o-Y 109% increase over last year. However, EBIDTA margin decreased by 307bps to 4.60% in FY22(Prov.) due to higher sale of wire rods which fetch relatively lower margins. Further, PAT margin also decreased by 8bps to 1.72% in FY22(Prov.) ASPL's GCA increased from Rs. 18.55 Crore in FY21 to Rs. 25.99 Crore in FY22. GCA improved mainly due to increase in profitability in absolute terms in FY22.

Comfortable Financial Risk Profile

The financial risk profile of the company is comfortable marked by satisfactory Tangible Net worth base of Rs. 147.44 Crore as on March 31, 2022(Prov.) as against Rs. 103.52 Crore as on March 21, 2021. As on March 31, 2022, unsecured loans from promoters and related parties to the tune of Rs.26.53 have been considered as quasi-equity as the same are subordinate to bank loan. The Overall gearing ratio on TNW is 1.25x and 1.56x as on March 31, FY22(Prov.) and March 31, 2021 respectively. The debt protection metrics is above average marked by ISCR of 2.68x in FY22(Prov.) as against 2.47x in FY21. Total debt to GCA of the company improved from 8.69 years in FY21 to 7.08 years in FY22(Prov.). TOL/TNW(on quasi equity) also improved from 2.44 years in FY21 to 1.87 years in FY22(Prov.).

Comfortable Operating Cycle

Cash conversion cycle stands comfortable at 34 days in FY22(Prov.) (FY21: 53 days) which reflects moderate reliance on working capital debt. The average collection period is 9 days (FY21: 20 days) and average inventory holding period stands at 43 days (FY21: 63 days) in FY22(Prov.). The average creditors period stands at 18 days in FY22(Prov.) as against 30 days in FY21.

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices and finished goods
Since the raw material is the major cost driver (constituting about 80-85% of total cost of sales) and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Intense competition and limited pricing flexibility in steel industry
The steel manufacturing business is characterised by intense competition across the value chain due to low product differentiation, and consequent intense competition. Further, the domestic steel industry is cyclical in nature, which is likely to impact the cash flows of the long product manufacturers including ASPL. ASPL's competitive position is supported by its integrated operations, diversified product profile with presence across various ranges and dimensions.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate
ASPL's liquidity was adequate marked by 75% average utilisation of working capital limits for last 12 months ended June, 2022. ASPL has generated cash accrual of Rs. 25.99 Crore in FY22(Prov) and expects sufficient cushion in cash accruals vis-à-vis its repayment obligations in the next 3 years. The Current Ratio of the company stood above unity at 1.22x as on March 31, 2022(Prov). The unencumbered cash and bank balance as on 31 March 2022 is Rs. 6.69 Crore.

About the Company

Aarti Sponge and Power Limited was incorporated in the year 2004 having registered office in Raipur, Chhattisgarh. Company is involved into manufacturing of Sponge Iron (90000 MTPA), MS Billet (138000 MTPA), Rolled Products (Wire Roads & Wire Drawing Products) (150000 MTPA) and has a captive power plant (8MW). The Company was allotted mining lease for Iron Ore mining in Chhattisgarh state comprising a total area of 31.55 Hectares. The lease deed with government authorities has already been executed during first week of January, 2017. The Operations in the Iron Ore mines are now expected to start from last quarter of FY23.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-3-2021 (Audited)	31-3-2022 (Provisional)
Total Operating Income	461.76	1010.71
EBITDA	35.38	46.45
PAT	8.33	17.39
Total Debt	161.15	183.96
Tangible Net worth	103.52	147.44
EBIDTA Margin (%)	7.66	4.60
PAT Margin (%)	1.80	1.72
Overall Gearing Ratio (x)	1.56	1.25

*Classification as per Infomerics` standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (June 24th 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	49.31		IVR BBB+/ Stable	--	--

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (June 24th 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
2.	GECL 2.0	Long Term	19.65	IVR BBB+/ Stable		--	--
3.	GECL 2.0 Extension	Long Term	11.66			--	--
4.	Cash Credit	Long Term	95.50			--	--
5.	LC/BG	Short Term	40.50	IVR A2	IVR A2	--	--

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

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 Bank Facilities – Term Loan	-	-	Upto Sep 2027	49.31	IVR BBB+ / Stable
Long Term Fund Based Bank Facilities – GECL 2.0	-	-	Upto Jan 2026	19.65	
Long Term Fund Based Bank Facilities – GECL 2.0 Extension	-	-	Upto Dec 2027	11.66	
Long Term Fund Based Bank Facility – Cash Credit	-	-	-	95.50	
Short Term Non Fund Based Bank Facilities – LC/ BG	-	-	-	40.50	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-ASPL-aug22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.