Press Release

Aarti Sponge and Power Limited

April 05, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	[Complexity Indicator](#)
Long Term Bank Facilities	176.12	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB-/Negative; ISSUER NOT COOPERATING [IVR Triple B Minus with Negative Outlook; Issuer Not Cooperating*]	Upgraded and removed from Issuer Not Cooperating category and simultaneously withdrawn	Simple
Short Term Bank Facilities	40.50	IVR A2 (IVR A Two)	IVR A3; ISSUER NOT COOPERATING [IVR A Three; Issuer Not Cooperating*]	Upgraded and removed from Issuer Not Cooperating category and simultaneously withdrawn	Simple
Total	**216.62**	**Rupees Two hundred sixteen crore and sixty-two lakh only**			

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Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded and withdrawn long term rating of IVR BBB+ with a Stable outlook and short term rating of IVR A2 assigned to bank loan facilities of Aarti Sponge and Power Limited (ASPL) with immediate effect. The ratings have been removed from Issuer not cooperating category before being withdrawn. The ratings have been withdrawn at the request of the company vide email dated December 06, 2024. IVR has received "No objection certificate" from all the bankers who have extended the facilities, and which have been rated by Infomerics.

The rating is being withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings.

The ratings have been upgraded taking into consideration the comfortable financial risk profile of the company, experienced management, and established track record of operations. Further the ratings draw comfort from increase in scale of operations with improved profitability margins and integrated steel unit. The ratings continue to remain constrained by the susceptibility of operating margin to volatility in raw material prices and finished goods as well as intense competition and limited pricing flexibility in the steel industry.

IVR has principally relied on the audited financial results of the company up to March 31, 2023, H1FY24 unaudited results and projected financials for FY2024-FY2026, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities: Nil

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. The 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

ASPL 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. It has an 8MW WHRB captive power plant installed in August 2017 to utilize the complete generation of power through waste flu which results in significant cost savings to the company. The company is expanding its manufacturing capacity of billet by 90,000 MT and TMT of 65,000 MT per annum at total cost of around Rs 45 crore. Funding is through Rs 30 crore through debt and the rest via internal accruals and promoter funding. Commercial operations are expected to commence from July 2024.

Increasing Scale of Operations

The Total Operating Income increased Y-o-Y by 5.87% in FY23 i.e. from Rs. 1011.48 Crore in FY22 to Rs. 1070.89 Crore in FY23. It increased due to an increase in sale of wire rods which constitute ~75% of revenue in FY23. EBITDA margin improved by 27 bps and stood at 4.87% in FY23 as compared to 4.60% in FY22 on account of decline in cost of raw material consumed and power and fuel expenses. The company has 8MW WHRB captive power plant to utilize the complete generation of power through waste flu which results in cost savings to the company. The PAT margin increased by 31 bps and stood at 1.94% as against 1.63% in FY22 in line with the EBITDA margin. GCA increased from Rs. 25.91 crore in FY22 to Rs. 31.38 crore in FY23.

Comfortable Financial Risk Profile

The financial risk profile of the company is comfortable marked by a satisfactory Tangible Net worth base of Rs. 168.45 Crore as on March 31, 2023, as against Rs. 146.55 Crore as on March 21, 2022. As on March 31, 2023, unsecured loans from promoters and related parties to the tune of Rs.27.67 have been considered as quasi-equity as the same are subordinate to bank loan. The Overall Gearing Ratio of the company as on 31-Mar-2023 is 0.91x (31-Mar-2022: 1.29x); improved mainly on account of consideration of unsecured loan to the tune of Rs.27.67 crore as quasi equity and lower utilisation of working capital loan from bank. TOL/TNW improved from 1.89x as on 31-Mar-22 to 1.28x as on 31-Mar-23 due to decrease in creditors and consideration of unsecured loan of 27.67 crore as quasi equity. The debt protection metrics stood above average marked by Interest Coverage Ratio of 3.46 times in FY23 (FY22: 3.02x). Total Debt to GCA improved to 4.88 years in FY23 as against 7.30 years in FY22 due to decline in debt and increase in GCA.

Comfortable Operating Cycle

Cash conversion cycle stands comfortable at 38 days in FY23 (FY22: 35 days) which reflects moderate reliance on working capital debt. The average collection period is 9 days (FY22: 9

days) and the average inventory holding period stands at 43 days (FY22: 43 days) in FY23. The average creditors period stands at 14 days in FY23 as against 17 days in FY22.

B. 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 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 characterized 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)

Instrument/Facility wise Default Recognition & Post-Default Curing Period

Criteria of assigning rating outlook

Policy on Withdrawal of Ratings

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate as the company expects sufficient cushion in its cash accruals as against its scheduled debt repayment obligation during the next 3 years. The company has 66.90% utilisation of fund-based working capital limits and ~55.34% utilisation of non-fund based working capital limits for last 12 months ended February, 2024. The Current Ratio of the company stood at 1.33x as on March 31, 2023. The unencumbered cash and bank balance as on March 31, 2023, is Rs. 1.57 Crore. The cash operating cycle of the company is of 38 days in FY23 (35 days in FY22).

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 Rods & Wire Drawing Products) (150000 MTPA) and has a captive power plant (8MW).

Financials (Standalone):

For the year ended/As on*	30-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1011.48	1070.89
EBITDA	46.48	52.11
PAT	16.50	20.75
Total Debt	189.19	153.29
Tangible Net Worth	146.55	168.45
Ratios		
EBITDA Margin (%)	4.60	4.87
PAT Margin (%)	1.63	1.94
Overall Gearing Ratio (x)	1.29	0.91

*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 2023-24)				Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2023-2024 (October 10, 2023)	Date(s) & Rating(s) assigned in 2021-2022 (August 22, 2022)	Date(s) & Rating(s) assigned in 2020-2021(June 24, 2021)	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Facilities	Long Term	176.12	IVR BBB+/Stable (Upgraded and removed from Issuer Not Cooperating category and simultaneously withdrawn)	IVR BBB-/ Negative; INC	IVR BBB+/Stable	IVR BBB+/ Stable	-
2.	Short Term Bank Facilities	Short Term	40.50	IVR A2 (Upgraded and removed from Issuer Not Cooperating category and simultaneously withdrawn)	IVR A3; INC	IVR A2	IVR A2	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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 Bank Facility- Term Loan	-	-	Up to September 2027	49.31	IVR BBB+/Stable; Withdrawn
Long Term Bank Facility- GECL 2.0	-	-	Up to January 2026	19.65	IVR BBB+/Stable; Withdrawn

Long Term Bank Facility- GECL 2.0 Extension	-	-	Up to December 2027	11.66	IVR BBB+/Stable; Withdrawn
Long Term Bank Facility- Cash Credit	-	-	-	95.50	IVR BBB+/Stable; Withdrawn
Long Term Bank Facility- LC/BG	-	-	-	40.50	IVR A2; Withdrawn

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

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Aarti-Sponge-apr24.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.