



Press Release

Agarwal Induction Furnace Pvt. Ltd

April 08, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	15.00	IVR BBB-; Positive (IVR Triple B Minus with Positive Outlook)	Reaffirmed with Positive outlook and removed from Credit Watch	Simple
Short-term Bank Facilities	15.00	IVR A3 (IVR A Three)	Reaffirmed and removed from Credit Watch	Simple
Total	30.00 (Rs. Thirty crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the 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, synergy derived from being a part of VRKP group's value chain and its strategic plant location. The ratings also note improvement in scale of operations in FY21 and in 9MFY22, its satisfactory capital structure with healthy debt protection metrics and satisfactory working capital management by the company. However, these rating strengths continues to remain constrained by vulnerability of profitability to volatility in raw material and finished goods prices and forex rates, exposure to client and geographical concentration risk, exposure to foreign exchange fluctuation risk and exposure to high competition and cyclicity in the steel industry.

The ratings have been removed from credit watch with developing implications with normalization in business scenario in post covid period. Further, the outlook remained positive with expected improvement in scale of operations with rise in profitability and expected improvement in capital structure and debt protection parameters in the near term.

Key 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 1.50x



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- 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

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 2x and interest coverage ratio to below 2x
- Deterioration in working capital management affecting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter with long track record**

AIFPL was promoted by one Mr. Vinod Kumar Agarwal in the year 2001. 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.

- **Part of group's value chain and strategic plant location**

AIFPL is part of VRKP group formed by Mr. Vinod Kumar Agarwal having major interest in the steel industry through its various companies. Mr. Agarwal started its first manufacturing unit in section steel in early 90's. 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. VSPPL is at the lowest end of the value chain. It manufactures sponge iron and then sells the same to AIFPL, which is at the middle of the value chain and manufacture billets and supply the same to VRKPL. Further, the plant is very well connected with other nearby places through roadways.

- **Improvement in scale of operations in FY21 coupled with improvement in profitability**



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During FY21, the total operating income (TOI) has improved further by ~42% to Rs.365 crore over FY20 on the back of increase in ANSPR coupled with increase in capacity and improved demand in post pandemic period mostly from H2FY21. With rise in sales realisation, profitability though continued to remain thin has also improved in FY21. During 9MFY22, the company has achieved a TOI of ~Rs.274 crore.

- **Satisfactory capital structure and debt protection metrics**

The capital structure of the company continued to remain satisfactory with nil long-term debt as on March 31, 2021. Further, with low utilisation of bank borrowings, the overall gearing ratio stood comfortable at 0.35x as on March 31, 2021. The interest coverage ratio and Total debt to GCA, both has improved and continued to remain satisfactory at 8.19x and 1.91 years respectively in FY21. Infomerics expects improvement in the capital structure with improvement in debt protection metrics in the near term.

- **Satisfactory working capital management**

The company has prudently managed its working capital requirements and improve its collection period to around one month in FY21. Steady improvement in average collection period also led to improvement in the operating cycle and consequent lower utilisation of bank borrowings. The average utilisation of its working capital borrowings remained satisfactory at about~61% during last 12 months ending on January 2022.

Key Rating Weaknesses:

- **Vulnerability of profitability to volatility in raw material and finished goods prices and forex rates**

The price of steel has seen a lot of volatility over the last three years hence company's operating profitability remains exposed to the adverse movements in the raw material prices. Further, the company imports coal from South Africa and 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.

- **Exposure to client concentration and geographical concentration risk**

AIFPL is a backward integration initiative of VRKPL. About 51% of the goods are sold to VRKPL, and top two customers alone accounted around 60% of sales in FY21, which indicates client concentration risk. The company's performance is largely based on the



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performance of VRKPL. Moreover, AIFPL mainly caters to the state of Karnataka and Andhra Pradesh which contributed around 100% of its sales in FY21. 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 GFL. 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

The liquidity profile of AIFPL is expected to remain adequate marked by its expected satisfactory cash accrual vis a- vis its insignificant debt repayment obligations during FY22-24. Further, the company has no planned capex which imparts comfort. During last 12 months ending on January 2022, average utilisation of bank borrowing was around ~61% indicating an adequate liquidity buffer. Further, the company has an adequate gearing headroom marked by its comfortable capital structure with an overall gearing ratio at 0.34x as on March 31,2021.

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



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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)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	257.12	365.89
EBITDA	5.96	9.82
PAT	2.37	4.97
Total Debt	14.92	13.40
Tangible Net worth	33.01	37.98
EBITDA Margin (%)	2.32	2.68
PAT Margin (%)	0.92	1.35
Overall Gearing Ratio (x)	0.45	0.35

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1	Cash Credit	Long Term	15.00	IVR BBB-; Positive	IVR BBB-; Under Credit Watch with Developing Implication (April 01, 2021)	IVR BBB-; Stable (April 09, 2020)	-	IVR BBB-/Stable (March 27, 2019)
2	Letter of Credit	Short Term	15.00	IVR A3	IVR A3; Under Credit Watch with Developing Implication (April 01, 2021)	IVR A3 (April 09, 2020)	-	IVR A3 (March 27, 2019)

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About Infomerics Ratings:

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.

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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
LT Fund Based Limits – CC	-	-	-	15.00	IVR BBB-; Positive



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ST Non-Fund-based Limits – LC	-	-	-	15.00	IVR A3
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Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Agarwal-Induction-Apr22.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.