



Press Release

Honest Alloys Private Limited

August 24, 2023

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	17.50	IVR B-; Stable (IVR Single B Minus with Stable outlook)	Assigned	Simple
Total	17.50 (Rupees Seventeen crore and fifty lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Honest Alloys Private Limited (HAPL) draws comfort from its experienced promoters and favourable project location. However, these rating strengths are partially offset by project implementation risk and exposure to cyclicalities in the steel industry.

Key Rating Sensitivities:

Upward Factors

- Sustained increase in operating income and profitability improving cash flows and liquidity of the company.
- Timely completion of running project with no cost overrun.

Downward Factors

- Not able to scale up operations thus impacting the cash flow and liquidity of the company.
- Any major debt funded capex deteriorating the debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experience of the promoters

The promoters have long standing experience in the steel industry for more than one decade which shall give edge in the manufacturing process and marketing their product.



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Favourable project location

The location of the new manufacturing facility is at GIDC Ranasan, Mahudi Road, Vijapur, Ranasan, Gujarat which is well connected with rail, road, port and air transport.

Key Rating Weaknesses

Project implementation risk

HAPL is setting up a manufacturing facility for seamless tubes also known as instrumentation tubes targeting mainly to only small diameter market segment i.e., 7mm to 25 mm with the production capacity of 50 MT per month (600 MT p.a.) at Vijapur, Ranasan, Gujarat. The proposed project cost for the said project is Rs. 20.00 Crores to be funded by promoters' contribution of Rs.6.50 crore and term loan of Rs.13.50 crore i.e., at a debt equity ratio of 2.08:1. Promoters' contribution will come in the form of equity of Rs.5.00 crore and remaining in the form of unsecured loan. Financial closure for term loan has been achieved. The project is expected to be completed by December 2023. Till July 15, 2023, the company had already incurred cost of Rs. 8.92 crore, of which. Rs.2.32 crore is bought in by promoter and remaining Rs.6.60 crore is funded through term loan. The new manufacturing facility is still under process. The main concern of the company will be executing its business post set up of the plant. HAPL is diversifying its product profile so penetrating the target market in India and abroad will be a challenge since the project is still in its nascent stage.

Exposure to cyclical 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 HAPL. 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 steel sector.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

Liquidity – Stretched



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The company had no commercial operations in FY23 and is yet to scale up operations in the projected period. This apart, when HAPL was operational in FY22, it was enjoying cash credit limit, where interest becomes overdue every month and gets regularised through infusion by promoters. The ability to scale up operations will be the key to generate sufficient cash accruals to meet repayment obligations.

About the Company

Honest Alloys Private Limited (HAPL) is incorporated on September 24, 2009, by Shri Haribhai Lavjibhai Choudhary and Shri Jaydip Haribhai Choudhary for the purpose of setting up a steel manufacturing plant. The company was engaged in the manufacturing of products like steel plates, billets, etc in its unit located in GIDC Ranasan, Mahudi Road, Taluka Vijapur. However, due to covid, they suffered heavy losses and had to shut down its unit toward FY22 end. In FY23, the unit was not operational. Now in its existing unit, the company proposes to set up a manufacturing facility for seamless tubes also known as instrumentation tubes.

Financials (Standalone):

(Rs. crore)

For the year ended / As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	36.55	26.01
EBITDA	2.30	-2.88
PAT	0.22	-4.14
Total Debt	17.40	13.04
Tangible Net worth	-6.95	-11.19
EBITDA Margin (%)	6.28	-11.08
PAT Margin (%)	0.59	-15.91
Overall Gearing Ratio	-2.50	-1.17

**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 Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	13.50	IVR B- / Stable (IVR Single B Minus with Stable outlook)	-	-	-



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		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
2.	Cash Credit	Long Term	4.00	IVR B- / Stable (IVR Single B Minus with Stable outlook)	-	-	-

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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.

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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 – Term Loan	-	-	Aug 2029	13.50	IVR B-; Stable
Long Term Bank Facilities – Cash Credit	-	-	-	4.00	IVR B-; Stable

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-hapl-aug23.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.