



## Press Release

### Aarti Sponge and Power Limited

June 24, 2021

#### Ratings

Instrument/Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities (Sanctioned)	151.02	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities (Sanctioned)	25.50	IVR A2 (IVR A Two)	Assigned
Short Term Bank Facilities (Proposed)	3.48		
<b>Total</b>	<b>180.00 (One Hundred Eighty Crores Only)</b>		

#### Details of Facilities are in Annexure I

#### Detailed Rationale

The rating assigned to the bank facilities of Aarti Sponge and Power Limited comfort from extensive experience of promoters and long track record of operations of the company. The rating also factors its increasing scale of operations, comfortable financial risk profile, comfortable operating cycle and integrated scale of operations i.e. ability to manufacture all the products in the steel chain like Sponge Iron, Billets and rolled products. However, these strengths are partially offset by susceptibility of operating margin to volatility in raw material prices and finished goods, intense competition, and limited pricing flexibility in steel industry.



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### Key Rating Sensitivities

#### Upward rating factor(s) –

- Significant and sustained 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 rating factor(s) –

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

### 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 into 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 16 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 completed the installation of wire rod mill in June, 2020 having total capacity of 150000 MTPA under its forward integration plans. The Company has also installed wire drawing unit which is forward integration of the



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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 expected to start by the end of current fiscal. 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. Hence presently the company is fully integrated steel manufacturing unit.

### **Increase in Scale of Operations**

The Scale of operations is increasing continuously over the last 4 years except marginal decline in FY20. The Operating Income increased to Rs.314.64 Crores in FY19 from Rs.196.21 Crores in FY18. The Operating Income reported for FY20 was Rs.290.15 Crores and it increased significantly to Rs.460.06 Crores in FY21(Prov). It mainly increased due to installation of the new capacity of wire rod unit in FY21. EBITDA increased to Rs.36.82 Crores in FY21(Prov) as against Rs.28.55 Crores in FY20. PAT increased to Rs.11.71 Crores in FY21(Prov) as against Rs.8.04 Crores in FY20.

### **Comfortable Financial Risk Profile**

The financial risk profile of the company is comfortable marked by satisfactory Tangible Net worth base of Rs.106.90 Crores and Adjusted Tangible Networth base of Rs.132.43 Crores in FY21(Prov) as against Rs.95.19 Crores & Rs.120.81 Crores in FY20. The Overall gearing improved to 1.47x in FY21(Prov) as against 1.60x in FY20. The debt protection metrics is above average marked by ISCR & DSCR of 2.54x & 1.43x in FY21(Prov) as against 3.14x & 1.46x in FY20. TOL/TNW stands at 2.08x in FY21(Prov) as against 2.22x in FY20.

### **Comfortable Operating Cycle**

Cash conversion cycle stands comfortable at 53 days in FY21(Prov) (PY 83 days) which reflects lower reliance on working capital debt. The average collection period is 21 days (PY:24 days) and average inventory holding period stands at 57 days (PY: 91 days) in FY20(Prov). The average creditors period stands at 24 days in FY21(Prov) as against 33 days in FY20.



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The Company is able to fund its working capital requirement on the back of favourable market demand.

### **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 businesses 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 Approach

### **Applicable Criteria**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity – Adequate**

ASPL has generated a cash accrual of Rs.19.56 Crores in FY21(Prov) against the debt repayment obligations of Rs.9.29 Crores. Further, ASPL liquidity position is adequate marked by sufficient cushion in expected accruals vis-à-vis its repayment obligations in FY22. Average Utilization of bank limits for last 12 months ended April, 2021 stood at 87% indicating a minimal



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buffer to meet incremental requirements. Further, company has reported adequate current ratio at 1.35x as on March 31, 2021(Prov) to meet its near-term cash requirements. All the factors reflect adequate liquidity position of the company.

### 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 is expected to start by the end of FY22.

### Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-03-2020 (Audited)	31-03-2021 (Provisional)
Total Operating Income	290.15	460.06
EBITDA	28.55	36.82
PAT	8.04	11.71
Total Debt	151.98	156.92
Tangible Net worth	95.19	106.90
EBIDTA Margin (%)	9.84	8.00
PAT Margin (%)	2.77	2.55
Overall Gearing Ratio (x)	1.60	1.47

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Brickwork Ratings in its press release dated May 12, 2021 has migrated the rating of Aarti Sponge and Power Limited to "Issuer Not Cooperating" category due to unavailability of adequate information.

**Any other information:** N.A.



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### Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	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.	Long term Fund Based Bank Facilities – Cash Credit	Long Term	70.50	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	-	-	-
2.	Long Term Fund Based Facilities- Term Loan	Long Term	58.53		-	-	-
3.	Long Term Fund Based Facilities- COVID Loans- GECL	Long Term	21.99		-	-	-
4.	Short Term Non Fund Based Facilities- LC/BG	Short Term	25.50	IVR A2 (IVR A Two)	-	-	-
5.	Short Term Non Fund Based Facilities- LC/BG (Proposed)	Short Term	3.48		-	-	-

**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](http://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. 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 I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long term Fund Based Bank Facilities – Cash Credit	-	-	-	70.50	IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)
Long Term Fund Based Facilities- Term Loan	-	-	-	58.53	
Long Term Fund Based Facilities- COVID Loans- GECL	-	-	-	21.99	
Short Term Non Fund Based Facilities- LC/BG	-	-	-	25.50	IVR A2 (IVR A Two)
Short Term Non Fund Based Facilities- LC/BG (Proposed)	-	-	-	3.48	

### Annexure II: Facility Wise Lenders Details

(<https://www.infomerics.com/admin/prfiles/Aarti-Sponge-Lenders-24june21.pdf>)