Press Release

Agarwal Induction Furnace Pvt. Ltd

April 01, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	15.00	IVR BBB-; Credit Watch with Developing Implications (IVR Triple B Minus under Credit Watch with Developing Implications)	Reaffirmed (under Credit Watch with Developing Implications)
2	Long-term/Short-term Bank Facilities	15.00	IVR A3; Credit Watch with Developing Implications (IVR A Three under Credit Watch with Developing Implications)	Reaffirmed (under Credit Watch with Developing Implications)
	Total	**30.00 (Rs. Thirty crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Agarwal Induction Furnace Pvt. Ltd (AIFPL) continues to derive comfort from its experienced promoter with long track record, part of group's value chain and strategic plant location, improvement in scale of operations in FY20 albeit decline in profitability, satisfactory capital structure and debt protection metrics and satisfactory working capital management. However, these rating strengths continues to remain constrained by volatility in the prices of its raw materials and finished goods, client concentration risk, exposure to foreign exchange fluctuation risk, geographical concentration risk and high competition and cyclicality in the steel industry.

However, the ratings were placed under credit watch with developing implications owing to uncertainty in the operating scenario due to possible second wave of COVID. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

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

- 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.

Detailed Description of Key Rating Drivers

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 FY20 albeit decline in profitability**

During FY20, the total operating income has improved further by ~8% to Rs.257.12 crore over FY19 on the back of increase in ANSPR coupled with increase in capacity. However, the profit margins of the company have declined on account of higher increase in raw material price (sponge iron and scraps) with respect to increase in finished goods (billets) price. This apart, due to expansion of plant and alteration in blast furnace the plant witnessed shut down for 45 days in November-December 2019 and further shutdown during end of March 2020 due to nationwide lockdown. During 9MFY21, the company has achieved a TOI of ~Rs.248 crore. However, the profit margins are expected to remain low in FY21 also.

- **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 31,2020. Further, with low utilisation of bank borrowings, the overall gearing ratio stood comfortable at 0.45x as on March 31, 2020. The interest coverage ratio and Total debt to GCA, though deteriorated, continued to remain satisfactory at 4.30x and 3.53 years respectively in FY20.

- **Satisfactory working capital management**

The company has prudently managed its working capital requirements and improve its collection period from around two months in FY18 to around one month in FY20. Steady improvement in average collection period also led to improvement in the operating cycle and consequent lower utilisation of bank borrowings. Though the current ratio continued to remain around unity, the average utilisation of its working capital borrowings remained satisfactory at about~66% during last 12 months ending on January 2021.

Key Rating Weaknesses

- **Volatility in the prices of raw materials and finished goods**

The price of steel has seen a lot of volatility over the last three years. The rise in raw material prices in FY20 is in the same range than that of the rise in finished goods prices. Furthermore, the increase in competition, as well as increase in overheads has led to fall in EBIDTA margin during the same year.

- **Client concentration risk**

AIFPL is a backward integration initiative of VRKPL. About 70-80% of the goods are sold to VRKPL, which indicates client concentration risk. The company's performance is largely based on the performance of VRKPL.

- **Foreign exchange fluctuation risk**

The company imports coal from South Africa. 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. Unhedged foreign currency exposure as on December 31, 2020 was Rs.13.64 crore (considering Rs.73.10/$ as on Dec 31, 2020)

- **Geographical concentration risk**

AIFPL mainly caters to the state of Karnataka and Andhra Pradesh which contributed 100% of its sales in FY19. Hence, the company is exposed to geographical concentration risk.

- **High competition and cyclicality 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 AIFPL. 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 about nil debt repayment obligations during FY21-23. Further, the company has no planned capex or availment of further long-term debt, which imparts comfort. During last 12 months ending on January 2021, average utilisation of bank borrowing was around ~66% 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 0.45x as on March 31,2020.

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 located at Anantapur, Andhra Pradesh with current installed capacity of 1,08,000 MTPA after completing expansion in December 2019.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Income	237.77	257.12
EBITDA	14.36	5.96
PAT	8.23	2.37
Total Debt	8.43	14.92
Tangible Net worth	30.65	33.01
EBITDA Margin (%)	6.04	2.32
PAT Margin (%)	3.45	0.92
Overall Gearing Ratio (x)	0.27	0.45

*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 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Cash Credit	Long Term	15.00	IVR BBB-; Under Credit Watch with Developing Implication	IVR BBB-; Stable (April 09, 2020)	-	IVR BBB- /Stable (March 27, 2019)	-
2	Letter of Credit	Short Term	15.00	IVR A3; Under Credit Watch with Developing Implication	IVR A3 (April 09, 2020)	-	IVR A3 (March 27, 2019)	-

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.

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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-; Under Credit Watch with Developing Implication
ST Non-Fund-based Limits – LC	-	-	-	15.00	IVR A3; Under Credit Watch with Developing Implication

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/lender-agarwal-furnance-1-4-21.pdf