Press Release

Incredible Industries Limited

December 14, 2023

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	31.00 (including proposed limit of 4.77)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	14.00	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Total	**45.00 (INR forty five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Incredible Industries Limited (IIL) considers the common management team and operational & financial linkages between IIL and Adhunik Corporation Limited (ACL). Infomerics has taken a combined view of these entities referred together as the Group. The ratings assigned derive strength from the experienced management team with long track record in the steel industry, improved financial performance in FY23, comfortable financial risk profile, and favourable demand outlook for the steel industry. However, these ratings strengths are partially constrained due to theworking capital intensive nature of operations, low profit margins, volatility in the prices of raw materials and finished goods, and high competition and cyclicality in the steel industry.

Rating Sensitivities

Upward Factors

- Sustained improvement in the topline coupled with an increase in the profits and profit margins
- Improvement in working capital cycle on a sustained basis.

Downward Factors

- Significant decline in scale of operations leading to decline in profits
- Any unplanned debt funded capex leading to deterioration in capital structure due to increase in leverage

- Elongation of working capital cycle, affecting the liquidity profile adversely

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced management team with long track record in the steel industry

The Group started its operations by setting up a plant in 2002 in the name of Adhunik Corporation and it is involved in the production of sponge iron, and billets. Incredible Industries' plant was set up in the year 2004 and is involved in the production of TMT Bars, Wire Rods, H B Wire etc. At present, both the companies are professionally managed. The Chairman and Managing Director of the group, Mr. Rama Shankar Gupta has almost three decades of experience in multiple industries. The long operational track record of the Group coupled with the long experience of the management will continue to benefit the Group going forward.

Improved financial performance in FY23; however, the scale of operations continues to remain moderate

The operating income of the Group increased by ~29% YoY from INR584.62 crore in FY22 to INR756.62 crore in FY23, primarily because of increased prices of steel products (TMT Bars, Wire Rods, Billets, etc) and increased volume of steel products sold. However, the scale of operations continues to remain moderate. Infomerics notes that sustained increase in scale of operations would be a key rating determinant going forward. The growth was more or less at the same pace in both Adhunik and Incredible. Adhunik witnessed a growth in total operating income of around 36% YoY in FY23 including inter-company transactions while Incredible witnessed a growth in total operating income of around 38% YoY in FY23. The combined EBITDA in absolute term, however, increased at a lower rate by ~16% YoY from INR28.40 crore in FY22 to INR33.08 crore in FY23, primarily because of increased raw material costs. The increase in EBITDA percolated to PAT, and while depreciation charges remained more or less the same in FY22 and FY23, interest charges increased in FY23 compared to FY22 and effective tax rate reduced from 22.4% in FY22 to 19.7% in FY23, all of which resulted in the PAT increasing from INR8.23 crore in FY22 to INR10.29 crore in FY23. As a consequence of increased profits, the gross cash accruals of the Group increased from INR16.31 crore in

FY22 to INR18.02 crore in FY23. The operating margin decreased from 4.86% in FY22 to 4.37% in FY23 primarily because of increase in raw material prices as noted above; PAT margin deteriorated from 1.40% in FY22 to 1.36% in FY23. The topline of the Group increased by ~32% YoY from INR375.25 crore in H1FY23 to INR495.11 crore in H1FY24 while the EBITDA increased by 30% YoY from INR12.75 crore in H1FY23 to INR16.56 crore in H1FY24. EBITDA margin was maintained at around 3.4% in both these periods.

Comfortable financial risk profile

The total debt of the Group decreased from INR79.46 crore on March 31, 2022 to INR77.88 crore on March 31, 2023, the long term debt decreased from INR47.03 crore on March 31, 2022 to INR39.00 crore on March 31, 2023. CC utilisation increased from INR30.89 crore in FY22 to INR34.69 crore in FY23. The long term debt equity ratio improved from 0.17x on March 31, 2022 to 0.14x on March 31, 2023. The overall gearing ratio was maintained at around 0.28x on March 31, 2023. The interest coverage ratio deteriorated slightly from 3.04x in FY22 to 2.85x in FY23. The DSCR also deteriorated slightly from 1.85x in FY22 to 1.54x in FY23.

Favourable demand outlook for the steel industry

The steel sector is expected to do well in the near to medium term given the steady growth in real estate and infrastructure activities across the country despite the prevailing high interest rate environment. India’s steel demand is set for a 7% to 9% surge in the 2024 fiscal year driven by government infrastructure spending and robust domestic consumption. There would be an expected demand boost from election driven government projects, and the end user industries including construction, automobile manufacturing, and engineering.

Key Rating Weaknesses

Working capital intensive nature of operations

The nature of operations of the Group is working capital intensive. The operating cycle in FY23 was high at 88 days although it improved from 120 days in FY22. The key reason for the high working capital days is the high inventory period, which was 79 days in FY23 (FY22: 98 days). However, the debtor period improved and stood comfortable at 23 days in FY23 as against 36 days in FY22. The fund based working capital utilisation of the Group was however moderate at around 84%.

Low profit margins

The profit margins of the Group are low given limited pricing power. The combined EBITDA margin of the Group was 4.37% in FY23 compared to 4.86% in FY22. Consequently, the PAT margins are very thin – PAT margin in FY23 was 1.36% in FY23 compared to 1.40% in FY22. Low profit margins negatively affect the cash accruals of the Group along with the return ratios like return on capital employed and return on equity.

Volatility in the prices of raw materials and finished goods

Steel prices are very volatile in nature. The costs of raw materials are also volatile, hence, profitability of the steel manufacturing companies including the Group is susceptible to fluctuations in the prices of its raw materials, and finished goods.

High competition and cyclicality in the steel industry

The Group faces stiff competition from many established players. The steel industry is also cyclical in nature and has witnessed prolonged periods of downturn due to excess capacity leading to a downward movement in the prices. But the current outlook for the steel industry appears to be good with robust demand in the domestic market.

Analytical Approach: Combined

For arriving at the rating, Infomerics has combined the financial risk profiles of Adhunik Corporation Limited (ACL), and Incredible Industries Limited (IIL) as these entities run under a common management and have strong operational and financial linkages. The two companies combined has been referred to as the Group.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies]

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

[Criteria for assigning rating outlook]

Liquidity – Adequate

The Group had a very comfortable current ratio of 3.20x on March 31, 2023 and this ratio is expected to remain in the range 3.02x – 3.75x between March 31, 2024 and March 31, 2026. The GCAs of each of the years between FY24 and FY26 comfortably cover the debt repayments due in the respective years. The Operating Cycle is comfortable in the range, of 60-76 days between March 31, 2024 and March 31, 2026. The average utilisation of fund based working capital limits is also comfortable at ~84% between November 2022 and October 2023, leaving an adequate cushion.

About the Company and the Group

The Company, Adhunik Corporation Limited's plant was set up in the year 2002 and it is involved in the production of Sponge Iron and Billets. At present, the Company is fully professionally managed.

The Company, Incredible Industries Limited is a BSE, NSE and CSE listed Company The Durgapur plant of the Company was set up in the year 2004 and is involved in the production of TMT Bars, Wire Rods, H B Wire etc. At present, the Company is fully professionally managed.

Financials (Combined): **(Rs. crore)**

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	584.62	756.62
EBIDTA	28.40	33.08
PAT	8.23	10.29
Total Debt	79.46	77.88
Tangible Net Worth	271.05	281.34
EBDITA Margin (%)	4.86	4.37

PAT Margin (%)	1.40	1.36
Overall Gearing Ratio (x)	0.29	0.28

*Classification as per Infomerics' standards

Financials (Standalone): **(Rs. crore)**

For the year ended* / As on	31.03.2022	31.03.2023
	Audited	Audited
Total Operating Income	535.67	740.61
EBIDTA	16.72	17.78
PAT	3.56	4.91
Total Debt	47.61	49.15
Tangible Net Worth	121.73	126.63
EBDITA Margin (%)	3.12	2.40
PAT Margin (%)	0.66	0.66
Overall Gearing Ratio (x)	0.39	0.39

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (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.	Cash Credit	Long Term	26.23	IVR BBB/ Stable	-	-	-
2.	Proposed Cash Credit	Long Term	4.77	IVR BBB/ Stable	-	-	-
3.	Bank Guarantee	Short Term	3.00	IVR A3+	-	-	-
4.	Letter of Credit	Short Term	11.00	IVR A3+			

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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.

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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
Cash Credit 1	-	-	-	10.68	IVR BBB/ Stable
Cash Credit 2	-	-	-	10.00	IVR BBB/Stable
Cash Credit 3	-	-	-	5.55	IVR BBB/ Stable
Proposed Cash Credit	-	-	-	4.77	IVR BBB/ Stable
Bank Guarantee	-	-	-	3.00	IVR A3+
Letter of Credit 1	-	-	-	5.00	IVR A3+
Letter of Credit 2*	-	-	-	6.00	IVR A3+

**100% interchangeability between Letter of Credit and Bank Guarantee*

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation approach
Adhunik Corporation Limited	Full consolidation
Incredible Industries Limited	Full consolidation

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Incredible-dec23.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