

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Agarwal Induction Furnace Private Limited

March 27, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	15.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	15.00	IVR A3 (IVR A Three)	Assigned
Total	30.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Agarwal Induction Furnace Private Limited (AIFPL) derive comfort from its experienced promoters with long track record, part of the group's value chain and strategic plant location, improvement in scale of operations and profitability, satisfactory gearing and debt protection parameters and satisfactory working capital management. However, the rating is constrained by volatility in the prices of raw materials and finished goods, client concentration risk, foreign exchange fluctuation risk, project completion risk, geographical concentration risk, and highly competition and cyclicity in steel industry. Growth in scale of operation, profitability & gearing level, timely completion of capex are the key rating sensitivities.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter with long track record

AIFPL was promoted by one Shri Vinod Kumar Agarwal in the year 2008. Shri 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, Shri Agarwal (Managing Director) is at the helm of affairs of the company.

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Part of group's value chain and strategic plant location

AIFPL is part of VRKP group formed by Shri Vinod Kumar Agarwal having major interest in the steel industry through its various companies. Shri 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 BB+ (Is)), 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 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 and profitability

The operating income, on an overall basis, increased in FY17 vis-à-vis FY16, however sales from manufacturing were comparatively lower in FY17, due to subdued steel prices owing to muted steel demand, but the gross sales increased due to increase in trading volumes. Manufacturing sales picked up in FY18 as compared to FY 17 due to higher capacity utilization and increase in billet price, as well as increase in other operating income like commission charges. AIFPL's absolute EBIDTA along with EBIDTA margin increased vis-à-vis FY16-FY18, due to increase in overall in sales; PAT margin had shown similar trend.

Satisfactory gearing and debt protection metrics

The capital structure of the company improved in FY 18. The long term debt equity ratio and the overall gearing ratio were comfortable as on March 31, 2018. The debt protection metrics marked by the interest coverage ratio and Long-term debt to GCA was satisfactory as on March 31, 2018. Long Term Debt / EBIDTA also remained comfortable as on March 31, 2018.

Satisfactory working capital management

The company has prudently managed its working capital requirements and maintained its working capital cycle within a range of about 12-43 days over the past period. Further, the average utilisation of its working capital also remained satisfactory. The working capital limit of Rs.15.00 crore is very reasonable for a turnover of Rs.201.02 crore

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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 FY18 (24%) is in the same range than that of the rise in finished goods prices (24%). However the increase in volume, as well as stabilization of overheads due to economies of scale, has led to increase in EBIDTA margin during the same year.

Client concentration risk

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

Foreign exchange fluctuation risk

The company imports coal from South Africa. As on December 31, 2018, the total foreign currency exposure of AIFPL was high. 100% of the same is unhedged, as there is no hedging policy in the company. Thus, Dollar appreciation will have an adverse impact, though limited, on the profitability.

Project completion risk

The company is proposing to expand its production capacity by setting up of an additional 14MW/30 Ton Induction Furnace with 17MW Convertor duty furnace transformers. This expansion will double the existing production capacity from 90,000 MT to 1,80,000 MT. However, the cost of project is Rs.31.57 Crore which is to be funded in debt equity ratio of 7.26x. The loan has not been sanctioned presently. However, there exist challenges for the company to set up the expansion in the expected period, as the loan has not been sanctioned.

Geographical concentration risk

AIFPL mainly caters to the state of Karnataka and Andhra Pradesh which contributed 100% of its sales in FY18 (provisional). Hence, the company is exposed to geographical concentration risk.

High competition and cyclicity in the steel industry

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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. Further, the steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. However, the outlook for the steel industry in the short to medium term appears to be good with robust demand in the domestic markets driven by various government initiatives and expected improvement in the infrastructure and real estate sector.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

AIFPL's liquidity profile seems satisfactory in the -medium term. The cash DSCR appears to be comfortable in the projected period. The company is performing satisfactorily, however the company expects higher cash accruals in the projected period, due to capacity expansion. This, along with resourcefulness of the promoter, do not indicate any difficulty for the company in meeting debt obligations in the near term.

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 Shri Vinod Kumar Agarwal. AIFPL is engaged in manufacturing of mild steel billet and trading of coal and mild steel sections. The manufacturing facility of the company is located at Anantapur, Andhra Pradesh with an installed capacity of 90000 MTPA. AIFPL is considering an expansion plan by setting up of additional 14MW/30Ton Induction Furnace with 17MW Converter Duty Furnace Transformers. This expansion will double the production capacity from 90,000 Ton to 1,80,000 Ton.

Financials (Standalone):

	(Rs. crore)	
For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	154.55	201.02
EBITDA	4.34	11.14
PAT	0.79	3.87
Total Debt	23.32	20.25

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For the year ended* / As On	31-03-2017	31-03-2018
Tangible Net worth	18.55	22.42
EBITDA Margin (%)	2.81	5.54
PAT Margin (%)	0.51	1.92
Overall Gearing Ratio (x)	1.26	0.90

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Cash Credit	Long Term	15.00	IVR BBB-/Stable	-	-	-
2.	Short Term Non Fund Based Limits –Letter of Credit	Short Term	15.00	IVR A3	-	-	-
3.	Short Term Non Fund Based Limits –Bank Guarantee*	Short Term	1.86	IVR A3	-	-	-

*Sublimit of LC

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. Company's long

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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 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	-	-	-	15.00	IVR BBB-/Stable
Letter of Credit	-	-	-	15.00	IVR A3
Bank Guarantee*	-	-	-	1.86	IVR A3

*Sublimit of LC