

**Anindita Steels Limited**

October 22, 2018

**Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Ratings</b>	<b>Rating Action</b>
Long Term Bank Facilities	26.68	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	3.32	IVR A3 (IVR A Three)	Assigned
<b>Total</b>	<b>30.00</b>		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating assigned to the bank facilities of Anindita Steels Limited (ASL) derive comfort from its long track record & experienced promoters, strategic location of the plant, improving capacity utilization, improvement in profitability and comfortable capital structure with comfortable interest coverage. However, the rating is constrained by lack of adequate backward integration vis-à-vis volatility in prices, highly competitive and fragmented nature of industry, working capital intensive nature of business and cyclical nature in steel industry. Scale of operations, profitability, global demand and supply and prices of steel products & working capital management are the key rating sensitivities.

**List of Key Rating Drivers**

- Long track record & experienced promoters
- Strategic location of the plant
- Improving capacity utilization
- Improvement in profitability
- Comfortable capital structure with comfortable interest coverage
- Lack of adequate backward integration vis-à-vis volatility in prices
- Highly competitive and fragmented nature of industry
- Working capital intensive nature of business
- Cyclical nature in steel industry



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### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### *Long track record and experienced promoters*

ASL has been in the business for more than one decade with the current promoters, signifying its long & established track record. Currently, the day-to-day affairs of the company are being looked after by Managing Director, Shri Deepak Rungta having around two decades of experience in the sponge iron industry. He is well supported by the other directors and a team of experienced personnel.

##### *Strategic location of the plant*

ASL's manufacturing facility is located in Hazaribagh, Jharkhand, which is in close proximity to various steel plants and various producers/dealers of its main raw materials (i.e. iron ore/coal). Further, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw-material and end market for its sponge iron results in containment of transportation cost.

##### *Improving capacity utilisation*

Capacity utilization (CU) for manufacturing of sponge iron, remained moderate in FY18 at around 61.5%. However, the same is in improving trend and in Q1FY19, capacity utilisation improved to 93.3% with improvement in the steel industry scenario and also on account of GST implementation.

##### *Improvement in profitability*

ASL registered a CAGR of about 11% during FY15-18 with a y-o-y growth of ~2.4% in its total operating income in FY18 over FY17. The growth remained muted due to subdued steel industry scenario in the recent past. However, ASL maintained EBIDTA margin of 9.5% in FY18, improving from 7.86% in FY17, mainly driven by increase in sales volume (resulting higher absorption of overheads) and sales realisation during the year. Further, with improvement in EBIDTA level, the PAT margin also improved from 0.69% in FY17 to 1.38% in FY18. This along with improvement in sales realization led to the company achieving a sale of ~Rs.47.5 crore (154% Q-o-Q growth in Q1FY19 over Q1FY19).

##### *Comfortable capital structure with comfortable interest coverage*

The capital structure of the company remained comfortable as on the last three account closing dates. The long term debt equity ratio and the overall gearing ratio were comfortable at 0.08x and 0.77x



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respectively as on March 31, 2018 (0.29x and 0.99x as on March 31, 2017). Furthermore, the debt protection metrics marked by the interest coverage ratio and Long term debt to GCA were comfortable at 2.13x (1.82x in FY17) and 0.67x (3.10x in FY17) respectively in FY18. The interest coverage ratio has improved further and remained comfortable at 4.40x in Q1FY19.

### **Key Weaknesses**

*Lack of adequate backward integration vis-à-vis volatility in prices*

ASL has its captive iron ore mine. However, the same is not sufficient to meet its requirement due to low grade nature of the same and only about 30%-40% of its requirement was met from the captive mine and for the rest it has to purchase from open market. The price of iron ore/pellet is volatile in nature and the same exposes the company to input price fluctuation risk to the extent of 60-70% of its requirement. However, for coal, the company has a tie-up for 72,000 MTPA of coal from Central Coalfields which caters to more than 50% of the coal requirement of the company. For the balance, the company usually sources imported coal. Hence, the margins are susceptible to the volatility in the input prices.

*Highly competitive & fragmented nature of industry*

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

*Working capital intensive nature of business*

ASL's business is working capital intensive as large amount of working capital remained blocked in stock of raw material. The company has a policy to maintain higher amount of stock (coal/iron ore) and procure iron ore/coal in bulk to avail higher discount, the company is keeping sizeable inventory which results in lower cost of procurement and also reduces any risk of raw material availability. Accordingly, average inventory period remained high (ranging between 116 days to 140 days) during the last three financial years..:

Moreover, average collection period is also on the higher side (ranging between 108 days to 110 days)



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*Cyclicality in the steel industry*

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

### **Analytical Approach & Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **About the Company**

Anindita Steels Limited (ASL) was originally incorporated in November, 1995 in the name of Anindita Trades & Investments Limited by Shri Subhash Chand Tulsyan and Shri Deepak Rungta. The company remained dormant for few years and subsequently entered into a Memorandum of Understanding (MOU) with the Govt. of Jharkhand in 2006 for setting up an Integrated Mini Steel Plant near Ramgarh, at Hazaribagh, Jharkhand. In 2006, the company started manufacturing of sponge iron. Currently, the company is in manufacturing of sponge iron only with an aggregate capacity of 1,20,000 MTPA. The company has an iron ore mine in Jharkhand which was allotted in 2007 for 30 years. The mining operation was started in April, 2013. Currently, the mine is used for captive purpose (about 30%-40% of total requirement), though the same is not sufficient to meet its requirement due to the low grade of iron ore.

### **Financials (Consolidated):**

(Rs. crore)

For the year ended* / As On	31-03-2016	31-03-2017	31-03-2018
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Total Operating Income	77.28	83.43	85.40
EBITDA	6.01	6.56	8.11
PAT	0.51	0.58	1.19
Total Debt	27.88	34.07	36.97
Tangible Net worth	34.17	34.51	35.58
EBITDA Margin (%)	7.78	7.86	9.50
PAT Margin (%)	0.65	0.69	1.38
Overall Gearing Ratio (x)	0.82	0.99	1.04

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA: Not Available**

**Any other information: Nil**



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### 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	25.00	IVR BBB- / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Cash Credit (Proposed)	Long Term	1.68	IVR BBB- / Stable Outlook	-	-	-
3.	Short Term Non Fund Based Limits –Letter of Credit*	Short Term	1.60	IVR A3	-	-	-
4.	Short Term Non Fund Based Limits –Bank Guarantee *	Short Term	2.32	IVR A3	-	-	-

\*Maximum limit for Non Fund Based Limits is Rs.3.32 Crores

**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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information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank 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
Cash Credit	-	-	-	25.00	IVR BBB- /Stable Outlook
Letter of Credit*	-	-	-	1.60	IVR A3
Bank Guarantee*	-	-	-	2.32	IVR A3
Bank Guarantee (Proposed)	-	-	-	1.68	IVR A3

\*Maximum limit for Non Fund Based Limits is Rs.3.32 Crores