

## RATING RATIONALE

07Nov2022



### Ashiana Ispat Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities aggregating to Rs.76.39 Crs. of Ashiana Ispat Limited.

#### Particulars

Facilities**	Amount (Rs.Crs.)		Tenure	Rating#	
	Previous	Present		Previous (27 Sep 2021)	Present
Fund Based	72.68	71.39	Long Term	BWR BBB-/Stable Reaffirmation	BWR BBB - /Stable Reaffirmation
Non Fund Based	5.00	5.00	Short Term	BWR A3 Reaffirmation	BWR A3 Reaffirmation
<b>Grand Total</b>	<b>77.68</b>	<b>76.39</b>	<b>(Rupees Seventy Six Crores and Thirty Nine lakhs Only)</b>		

#Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) (<https://www.brickworkratings.com>) for definition of the ratings

\*\*Details of Bank Loan facilities, consolidation or instruments are provided in Annexure

\*\*\* Note: This rating pertains to an existing assignment received prior to 6 October 2022.

#### RATING ACTION / OUTLOOK

The reaffirmation in the ratings for the bank loan facilities of Ashiana Ispat Ltd. ('AIL' or 'the company') factors in its Experienced promoters with established track record of business operations, well-equipped manufacturing facility coupled with diversified customer base with longstanding relationship, comfortable operating cycle coupled with Improved financial performance until Q1FY23. The ratings also derive comfort from the capacity enhancement to 240000 MTPA from current installed capacity of 120000 MTPA, and positive demand and positive outlook for the steel industry backed by the National Steel Policy.

The rating, however, remains constrained by subdued coverage indicators due to thin profitability, increase in debt levels coupled with deteriorating capital structure and weakening liquidity position. The same is partly setoff by the need based funding from the promoters which is expected to continue in the near future. Further, the company continues to remain exposed to fluctuating profitability margins and susceptible to volatility in raw material prices and product concentration risk, sector cyclicality and intense competition in the steel industry.

#### Rating Outlook: Stable

BWR believes that AIL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case of substantial improvement in operating parameters. BWR may revise its outlook from 'Stable' to 'Negative' in case there is a deterioration in the financial parameters over the medium term.

#### KEY RATING DRIVERS

##### Credit Strengths:

- **Experienced promoters with established track record of business operations :**

AIL has established a track record of more than three decades of business operations. The Chairman and Directors of the company are qualified postgraduates having more than two decades of experience in similar nature of business. The operations are ably supported by second generation and a team of qualified and experienced professionals to support the smooth operations on a day-to-day basis. The promoters are resourceful which is demonstrated through infusion of unsecured loans in the past to support the need based funding requirements of the company. The company's brand "Kamdhenu Saria" is well recognized in the infrastructure and real estate sector.

- **Well-equipped manufacturing facility coupled with Diversified customer base with longstanding relationship :**

AIL has emerged as a strong player in the steel market in Northern India with its state-of-the-art manufacturing set-up for production of sponge iron. The manufacturing facility is located in Bhiwadi, Distt Alwar, Rajasthan with an installed capacity of 240000 metric tonnes per annum (MTPA). The company's strong distributorship emanates from a network of 500 registered dealers & distribution network. The company sells its products mostly in the Northern region. The company has a diversified customer base wherein the top ten customers contribute around 27% of the TOI. With extensive reach in the Northern Indian market and dealership network, the company has established strong and healthy relationships with reputed players in the market thereby ensuring repeat orders from them because of quality and reliable products offered.

- **Comfortable operating cycle :**

Driven by the company's strategic change in the collection period policy and order backed inventory holding policy in place. The Gross current assets days of the company has improved to 89 days in FY22 from 125 days in FY21 on account of lower inventory and receivable days in FY22.

- **Improved financial performance untill Q1FY23. :**

The company has witnessed Quarter on Quarter a moderate increase in revenues of 12.40% in Q1FY23 vis a vis Q4FY22 and a substantial increase of 76.59% vis a vis Q1 of preceding FY. The increased revenues is driven by increased sales prices of TMT Bars coupled with company's ability to pass on the increased price of the raw materials to a certain degree with a resultant increase in EBITDA and EBITDA margins in Q1FY22. The improved performance is attributed to improved demand and industry outlook coupled with an increase in overall steel prices. The OPM has increased in Q1FY23 at 2.22% from 1.76% in Q4FY22 however, the same has marginally declined by less to 2.22% in Q1FY23 vis a vis OPM of 3.10% in Q1FY22. The bottom lines of the company has increased substantially in Q1FY23 registering a PAT of Rs.0.64Cr in Q1FY22 as against Rs.0.27Cr in Q4FY22 and Rs.0.45Cr in Q1FY22 coupled with increased NPM at 0.44% in Q1FY23 vis a vis a NPM at 0.21% in Q4FY22 driven by increased EBITDA. The interest servicing as indicated by ISCR has improved on the account of increased EBITDA the same stood at 1.71x in Q1FY23 vis a vis 1.27x in Q4FY22 and 1.59x in Q1FY22.

## **Credit Risks:**

- **Subdued coverage indicators due to thin profitability and increase in debt levels :**

AIL's profitability remained subdued with the operating profit margin remaining in the range of 2.50-3.00 % the same in FY22 stood at 2.32%. The margins in FY22 were impacted due to unprecedented and steep rise in the key raw material cost i.e Coal. Moderate operating profits, high repayment obligations and high interest outgo led to continued stress on the coverage indicators with Total Debt/EBDITA of 8.30 times (PY:9.98x) and debt service interest coverage has fallen below unity in FY22 at 0.87x (PY: 1.33x). However, the same is partly set off by the need based funding support extended by the promoters in order to support the repayment obligation.

- **Deteriorating capital structure and weakening liquidity position :**

AIL's capital structure continued to witness a continued high gearing at 2.49 times as on March 31,2022 from 2.61 times as on March 31, 2020. though marginally improved in FY22 at the back of strengthening of tangible net worth with prolonged profits as well as repayment of scheduled term loans. AIL's capital structure is expected to improve somewhat over the medium term as steel prices moderate to more reasonable levels coupled with capital infusion from the promoters to and the working capital needs of the company's businesses reduce, leading to a consequent reduction in the borrowing levels. On the liquidity front, a rise in input costs necessitated higher working capital for the business, which in turn led to a deterioration in the consolidated liquidity position, and a consequent weakening of the AIL's credit profile.

- **Fluctuating profitability margins and susceptible to volatility in raw material prices :**

The major raw materials for AIL are coal and iron ore, the prices of which are linked to market prices. The raw material cost constituted around 92% of the total operating income for FY22 (PY: 90%), thus, exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. Nevertheless, the company has a limited ability to pass on the increased cost to their customers to a certain extent which has resulted in mitigation of price fluctuation risk to a certain degree. Going forward, company's ability to effectively manage the volatilities will be a key rating factor.

- **Product concentration risk and highly competitive and cyclic nature of industry :**

AIL's market reach is restricted to the Northern part of the country alone contributing around 80% to the revenue thus exposing it to geographic concentration risk. Furthermore, the company is engaged in manufacturing of a single product i.e., Sponge Iron apart thereby exposing it to product concentrated risk and limiting its profitability margins. The steel bars industry is highly competitive with presence of various organized and unorganized players and expanding applications of steel bars. Margins continue to remain under pressure due to fragmented nature of industry. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply.

## **ANALYTICAL APPROACH - Standalone**

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

## **RATING SENSITIVITIES**

The ratings of the company are sensitive to improvement in its revenues, gross and net profit margins, working capital cycle besides improvement in other financial parameters.

Positive: The ratings may be upgraded if the company is able to significantly improve its revenues, net worth, debt protection metrics and overall gearing coupled with the improvement in other financial parameters including its working capital cycle.

Negative: The ratings may be downgraded if there is any deterioration in the financial risk profile of the company and decline in its revenues and profitability margins.

## LIQUIDITY INDICATORS - Stretched

Liquidity of AIL is stretched with high utilisation of working capital limits and insufficient cash accruals, putting stress on the liquidity cushion. Company had generated cash accrual of Rs.3 crore in FY22 as against repayment of obligations of Rs.4.47 crore in FY22. However, the servicing of the long term repayment obligation was supported by the cash from operations of the company which has increased to Rs.10.26Cr in FY22 (PY: Rs.7.57Cr). Further, the average utilization of working capital limits around 90% during past twelve months ended June 2022 with low free cash and bank balance of Rs.0.32 crore as on March 31, 2022. AIL's operating cycle remained moderate and has improved to 89 days in FY22 from 125 days in FY21 on account of lower inventory and receivable days in FY22. BWR's expects the liquidity is likely to remain stretched in the near future too as BWR expects the company to generate cash accruals of Rs.3.77Cr in FY23 against repayment obligation of Rs.6.30Cr during FY23. Further, as advised by the management the promoters are likely to contribute Rs.10-15Cr via interest free unsecured loan or preferential capital during the current fiscal year to support the repayment obligations and add cushion to the liquidity of the company.

## ABOUT THE ENTITY

AIL was incorporated in 1992, is promoted by Mr. Naresh Chand and Mr. Puneet Jain. The company is listed on the Bombay Stock Exchange (BSE). AIL manufactures mild-steel ingots and TMT bars for domestic construction, engineering, automotive & infrastructure sectors under the brand name 'KAMDHENU SARIA'. It has an installed capacity to manufacture 240,000 tonnes per annum (TPA) of TMT bars and 30000 TPA of mild-steel ingots. Its manufacturing unit is located in Bhiwadi (Rajasthan). The company has a very well established brand name and brand image.

## KEY FINANCIAL INDICATORS (Standalone)

Key Parameters	Units	FY 21-22 (Audited)	FY 20-21 (Audited)
Operating Revenue	Rs.Crs.	438.67	294.98
EBITDA	Rs.Crs.	10.18	8.59
PAT	Rs.Crs.	1.01	1.15
Tangible Net Worth	Rs.Crs.	34.14	32.89
Total Debt/TNW	Times	2.49	2.61
Current Ratio	Times	1.34	1.31

## NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY

Nil

## ANY OTHER INFORMATION

Nil

## RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Facilities	Current Rating (2022)			2022 (History)		2021		2020		2019	
	Type	Tenure	Amount (Rs.Crs.)	Rating	Date	Rating	Date	Rating	Date	Rating	Date

Facilities	Current Rating (2022)			2022 (History)		2021		2020		2019	
Fund Based	LT	71.39	BWR BBB-/Stable (Reaffirmation)	NA	NA	24Aug2021	BWR BBB- Stable (Upgrade)	16Mar2020	BWR BBB- Stable (Downgrade)	06Mar2019	BWR BBBStable (Upgrade)
		0.00	NA	NA	NA	27Sep2021	BWR BBB- Stable (Reaffirmation)	11Aug2020	BWR BB+Stable (Downgrade)	14Mar2019	BWR BBBStable (Reaffirmation)
Non Fund Based	ST	5.00	BWRA3 (Reaffirmation)	NA	NA	24Aug2021	BWRA3 (Upgrade)	16Mar2020	BWRA3 (Reaffirmation)	06Mar2019	BWRA3 (Upgrade)
		0.00	NA	NA	NA	27Sep2021	BWRA3 (Reaffirmation)	11Aug2020	BWR A4+ (Downgrade)	14Mar2019	BWR A3 (Reaffirmation)
<b>Grand Total</b>		<b>76.39</b>	<b>(Rupees Seventy Six Crores and Thirty Nine lakhs Only)</b>								

\*\*\* Note: This rating pertains to an existing assignment received prior to 6 October 2022.

### COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) (<https://www.brickworkratings.com/download/ComplexityLevels.pdf>). Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com) (<mailto:info@brickworkratings.com>).

### Hyperlink/Reference to applicable Criteria

- [General Criteria \(https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf\)](https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf)
- [Approach to Financial Ratios \(https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf\)](https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf)
- [Manufacturing Companies \(https://www.brickworkratings.com/download/Criteria\\_ManufacturingCompanies.pdf\)](https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf)
- [Short Term Debt \(https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf\)](https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf)

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### Ashiana Ispat Limited

#### ANNEXURE-I

#### Details of Bank Facilities rated by BWR

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
1	State Bank Of India (SBI)	Term Loan-Out-standing	5.61	–	<b>5.61</b>
2	State Bank Of India (SBI)	Cash Credit-Sanctioned	27.15	–	<b>27.15</b>
3	State Bank Of India (SBI)	CECL-Sanctioned	0.72	–	<b>0.72</b>
4	State Bank Of India (SBI)	GECL-Sanctioned	7.57	–	<b>7.57</b>
5	State Bank Of India (SBI)	BG/LC/ILC-Sanctioned	–	5.00	<b>5.00</b>
6	State Bank Of India (SBI)	GECL 2.0-Sanctioned	3.35	–	<b>3.35</b>
7	Yes Bank	GECL-Sanctioned	3.99	–	<b>3.99</b>

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
8	Yes Bank	Cash Credit-Sanctioned	23.00	-	23.00
<b>Total</b>			<b>71.39</b>	<b>5.00</b>	<b>76.39</b>
<b>TOTAL (Rupees Seventy Six Crores and Thirty Nine lakhs Only)</b>					

\* Note: This rating pertains to an existing assignment received prior to 6 October 2022.

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