Alaknanda Sponge Iron Ltd.

January 04, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	22.87	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	14.63	CARE A2 (A Two)	Assigned
Total Bank Facilities	**37.50 (Rs. Thirty-Seven Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Alaknanda Sponge Iron Ltd. (ASIL) derives strength from the long experience of promoters in steel industry, association with the principal Kamdhenu Ltd, favorable location of manufacturing units and satisfactory performance over the last three years marked by increasing scale of operations with healthy financial risk profile marked by comfortable capital structure and debt protection metrics. The ratings are however, constrained by moderate capacity utilization, cyclical nature of the steel industry and profitability susceptible to volatility in raw-material and finished good prices.

Rating Sensitivities

Positive Factors

- Growth in scale of operations as marked by total operating income of above Rs.600 cr on sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 8.00% and 4.50% respectively on sustained basis.

Negative Factors

- Deterioration in the capital structure as marked by overall gearing ratio above unity on a sustained basis
- Decline in coverage indicators as marked by interest coverage ratio below 4.50x and total debt to GCA of above 4.00x on a sustained basis.
- Any major debt funded capex leading to deterioration in capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters in steel industry

The company is promoted by Mr. Anand Kumar Saraogi, his brother Mr. Vishal Saraogi and Mr. Sandeep Agarwal. The promoters have an extensive track record of more than two decades in the steel sector. They are actively involved in day-to-day affairs of the company and are adequately supported by a team of experienced professionals.

Location advantage in terms of proximity with source of raw materials as well as end user market for finished goods

The plant location is favorable in terms of ready availability of raw materials like sponge iron and pig iron. Since, the neighboring states like Jharkhand and Odisha have abundant with iron ore reserves, timely supply of raw materials at a reasonable transportation cost is ensured. Moreover, ASIL's customers are largely located in the state of West Bengal resulting in low transportation cost and timely delivery of products.

Strong association with the principal manufacturer of Kamdhenu in West Bengal

ASIL has been associated with Kamdhenu group since fiscal 2010, with a consistent track record of continuity of agreement. The company has entered into a royalty based agreement and manufacturers Kamdhenu and KAY2 thermo-mechanically treated bars (TMT) bars/rolls for the state of West Bengal.

Improved performance and scale of operations during last three fiscals

ASIL reported a growth in revenue by ~61% in FY19 over FY18 on account of higher sales volume of billets with full year impact of capacity added in FY18 and increase in installed capacity in FY19. Further, in FY20 (Prov.) ASIL reported a growth of 29% in topline over FY19 largely due to increase in volumes of billets and increase in trading sales, whereas on the other hand, sales realisation took a hit in FY20 as compared to FY19 on account of slowdown of the industry. PBILDT margins

increased from 3.29% in FY18 to 5.29% in FY19 mainly due to the increase in volumes leading to better fixed cost absorption coupled with increase in tolling margins of rolled products.
In H1FY21, the company's operation was shut till last week of April' 20 pursuant to covid-19 lockdown and it reported a turnover of Rs.166 crs. The PBILDT margin stood at 4.87% in H1FY21 on account of decline in overall scale of operations.

Improvement in capital structure and debt protection metrics
The capital structure and debt protection metrics of the company has been improving over the last three years with accretion to reserves and increasing cash profits. Further a large part of the debt also constitutes unsecured loans from related parties. Overall gearing and TD/GCA remained satisfactory at 0.44x and 1.50x respectively as on Mar'20. Interest coverage ratio also remained satisfactory and increased y-o-y from 4.44x in FY18 to 8.29x in FY20 owing to increase in PBILDT due to increasing scale of operations.

Key Rating Weaknesses
Moderate capacity utilization
The operations of ASIL are partially integrated as billets required for manufacturing of TMT Wire rods and Binding Wires are manufactured in house. The installed capacity of billet has increased gradually from 84,600 MTPA in FY18 to 197,400 MTPA in FY20. The capacity utilization (CU) for billets were satisfactory, however, for rolled products utilizations remained moderate during the last three fiscals. Further, in H1FY21 the capacity utilization declined mainly on account of outbreak of Covid-19 as the operations of the company were shut till the last week of April'2020.

Cyclical nature of the steel industry
Steel is a cyclical industry, strongly correlated to economic cycles since its key users i.e., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Fall in demand in any of these sectors directly impacts the demand of steel products. The prevailing slowdown in automobile sector is one of the key reasons for subdued performance of steel sector in FY20. Further, in the current year the Covid-19 pandemic has crippled demand in major steel-consuming sectors and impacted steel production globally.

Profitability susceptible to volatility in raw-material and finished good prices
Raw-material and power are major cost driver for ASIL. Over the last three fiscals raw material consumption remained in the range of 77-82% of total cost of sales and power cost remained in the range of 16-18% of total cost of sales. Major raw-materials required are sponge iron, pig iron and scrap which the company procures locally and power is sourced from Damodar Valley Corporation (DVC). Since the raw-material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material and finished goods prices.

Industry Outlook
CARE expects domestic steel production and consumption to remain steady in H2FY21. For FY21 steel production to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half. While large players have reported faster return to normalcy after covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility

Liquidity: Adequate
The cash accrual was Rs.21.35 cr in FY20 (prov.) as against repayment obligations of Rs.4.25 cr. ASIL's liquidity profile is supported by the buffer available in the working capital credit line. The average monthly utilization of fund based working capital limit stood at ~28% during last 12 months ended Oct 2020. Operating cycle of the company has improved consistently over last three years from 68 days in FY18 to 26 days in FY20 due to reduction in both debtors and inventory period which was mainly on account of increase in proportion of billet sales wherein credit period and inventory requirement is lower as compared to rolled products. Further, ASIL has neither opted for any moratorium of bank facilities nor opted for emergency Covid 19 relief fund in lines with the RBI guidelines.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Steel Companies
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies

About the Company
Alaknanda Sponge Iron Ltd. (ASIL), is promoted by Mr. Anand Kumar Saraogi, Mr. Vishal Saraogi and Mr. Sandeep Agarwal. ASIL started commercial production in January, 2009 with manufacturing of TMT Bars and MS Rounds. The company has its manufacturing facility located at Durgapur, West Bengal with an installed capacity of 197,000 MTPA of Billets and 104,400 MTPA for Rolled products as on March 31, 2020. Apart from selling Billets and TMT under its own brand, ASIL also sells TMT bars under the brand name of “Kamdhenu” & “Kay2” and for the same it pays royalty.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Provisional)
Total operating income	347.17	447.98
PBILDT	18.38	25.97
PAT	11.29	14.68
Overall gearing (times)	0.49	0.44
Interest coverage (times)	4.68	8.29

A: Audited

Status of non-cooperation with previous CRA: CRISIL has revised the rating to issuer non-cooperation category vide PR dated Sep 02, 2020.

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantees	-	-	-	14.63	CARE A2
Fund-based - LT-Term Loan	-	-	Mar’2022	5.62	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	17.25	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	14.63	CARE A2	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	5.62	CARE BBB+; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	17.25	CARE BBB+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Anil More
Group Head Contact no.- 033-4018 1623/+91 8444 867144
Group Head Email ID- anil.more@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no. : +919830386869
Email ID : lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**