

Agrasen Iron And Steels Private Limited (Revised)

October 06, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	24.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term/Short Term Bank Facilities	4.00	CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	28.50 (₹ Twenty-Eight Crore and Fifty Lakhs Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Agrasen Iron and Steels Private Limited (AISPL) continues to derive strength from the experienced promoters, renowned suppliers and large network of customers albeit not a very strong customer base, improvement in financial performance in FY22 (provisional; refers to the period April 01 to March 31), improving capital structure albeit low net worth base and improving debt protection metrics. The ratings, however, remain constrained by exposure of profitability to volatility in steel prices, fragmented nature of industry with many regional unorganized players.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustenance of scale of operations (with total operating income above Rs.350 crore) and operating margin (over 3.50%) along with improvement in capital structure (overall gearing ratio below 1.4x).

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing above 2.20x on a sustained basis.
- Increase in operating cycle above 100 days on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record

AISPL is part of the Agrasen Group of Raipur. Agrasen group has an experience of more than a decade and is mainly into manufacturing and trading of mild steel and iron structural products (such as angles, beams and channels) through its various group companies.

Improvement in financial performance in FY22

Total operating income (TOI) of the company more than doubled in FY22 over FY21 on the back of increased demand for steel with opening up of the economy and government thrust on infrastructure along with higher price. PBILDT margin, though moderated, remained satisfactory considering the trading nature of business. The company earned a PAT of Rs.9.24 crore in FY22 vis-à-vis Rs.6.53 crore in FY21. The company achieved TOI of Rs.120 crore in Q1FY23. The financial performance is expected to remain satisfactory going forward with sustained TOI and profitability.

Renowned suppliers and network of customers albeit not a very strong customer base

AISPL purchases products from well-known companies like SAIL and Jindal Steel and Power Limited. AISPL has an MOU with SAIL for purchasing goods which provides some stability in procurement. Although AISPL has a low customer concentration risk, the customer base is not very strong. The company sells to both, end users like construction companies and fabricators (around 70%) and to traders (around 30%). It has a network of around 300 brokers which helps in the recovery of any bad debts. Although, the company does not export, it sells its products across India.

Improving capital structure albeit low net worth base and satisfactory debt protection metrics

The overall gearing ratio of the company has improved from 1.75x as on March 31, 2021, to 1.43x as on March 31, 2022. Debt protection metrics also witnessed improvement due to higher PBILDT and GCA during FY22. Net worth, however, continues to be on the lower side at Rs.24 crore as on March 31, 2022. The company's financial risk profile is expected to be comfortable and improve further with steady performance and accretion of profit to net worth.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Stable outlook for steel industry

The domestic steel production was at its highest at 113.6 million tonnes in FY22 (up from 96.2 million tonnes in FY21), an increase of 18.1% (y-o-y) on account of the revival in economic activities and low-base effect. Steel exports remained robust for the third straight year and increased by 25.1% during FY22 after recording a growth of 29.1% in FY21 and 31.4% in FY20. During April and May 2022, the production grew by 9.1% to 9.6 million tonnes as compared to the same period of FY22. CareEdge Research estimates India's steel capacity utilisation at around 79% for FY22 (on an estimated installed production capacity of around 144 million tonnes). The robust steel demand outlook is likely to lead to continued high-capacity utilisation for the sector over the medium term.

Key rating weaknesses

Profitability exposed to volatility in steel prices

Steel is a cyclical industry, strongly correlated to economic cycles since its key users viz., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy. Also, AISPL procures material from larger steel players such as SAIL and Jindal Steel and Power, it doesn't have much pricing power and it doesn't follow any formal hedging policy. AISPL stocks up on inventory when it expects prices to increase and vice-versa to gain from volatile prices. Any adverse movement in prices of its traded goods may expose the company to the risk of volatility in profitability.

Fragmented industry with many regional unorganized players

The steel industry in Raipur is characterized by existence of large number of small and medium sized steel trading players working at a regional level. Accordingly, there is stiff competition from the unorganized players.

Liquidity: Adequate

The working capital cycle of AISPL improved from 50 days in FY21 to 35 days in FY22 due to better inventory and debtors management. AISPL maintained an average inventory of around 31 days to ensure prompt supply to its customers and provided an average of 12 days credit period to its clients in view of high competition in iron and steel trading business. On the other hand, the company needs to procure the trading goods on spot/advance payment basis leading to low average creditor period of 7 days. The average working capital utilisation during the last 12 months ending July'22 was 72.88%. AISPL maintained sufficient liquidity with cash and bank balance of Rs.2.60 crore as on March 31, 2022 (prov.). Cash accruals are likely to be sufficient to meet term debt repayment obligations.

Analytical approach

Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Steel](#)

[Wholesale Trading](#)

About the company

AISPL incorporated in 2010, belongs to Raipur based Agrasen Group. AISPL is engaged in the trading of mild steel and iron structural products such as MS bars, Joints, Beams, TMT Bars, MS Channels, MS Flat Sections, MS Angles etc. The company was promoted by Mr. Nilesh Kumar Agrawal and Mr. Pradeep Dayakishan Goel. In FY21, the shares held by Mr. Goel was transferred to Mr. Nilesh Kumar Agarwal and family. The Agrasen group also has presence manufacturing of ingot, rolled products and pipes for more than a decade. Major entities belonging to the group are Agrasen Ispat Pvt Ltd, Agarwal Channel Mills Pvt. Ltd., Hindustan Coils Limited, Devi Iron and Power Pvt. Ltd.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23 (P)
Total operating income	201.25	424.44	120.00
PBILDT	8.34	15.29	NA
PAT	6.53	9.24	NA
Overall gearing (times)	1.75	1.43	NA
Interest coverage (times)	4.50	6.21	NA

A: Audited; P: Provisional; NA: Not available.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: 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 facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	24.50	CARE BBB-; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	4.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	24.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Feb-22) 2)CARE BB+; Stable (22-Sep-21) 3)CARE BB-; Stable; ISSUER NOT COOPERATING* (02-Jun-21)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (02-Apr-20)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	4.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (07-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

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