

## Enershell Alloys & Steel Private Limited

March 11, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	29.71	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	24.45	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>54.16</b> <b>(Rs. Fifty-Four Crore and Sixteen Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Enershell Alloys & Steel Private Limited (EASPL) to monitor the ratings vide e-mail communications/letters dated March 01, 2022, February 24, 2022, February 16, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on EASPL's bank facilities will now be denoted as **CARE BB; Stable/CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.**

### Detailed description of the key rating drivers

At the time of last rating on February 16, 2021 the following were the rating strengths and weaknesses (updated for the information available from Audited Financial Statements for FY21 (refers to period April 01 to March 31) and unaudited results for H1FY22 (refers to period April 01 to September 30), Registrar of Companies etc.

### Key Rating Weaknesses

#### Decline in total operating income in FY21 albeit improvement in operating margins

During FY21, total operating income had de-growth of 38.33% over FY20 due to adverse impact of Covid-19, while the EBIDTA margin improved to 14.97% from 8.38% in FY20 on account of uptrend in steel prices. Further, PAT margin reduced from 0.65% in FY20 to 0.30% in FY21 due to deferred tax component, while cash accruals increased from Rs. 5.65 crore in FY20 to Rs. 6.95 crore in FY21.

EASPL achieved total operating income of Rs. 46.99 crore during H1FY22 (refers to period April 01 to September 30) with EBIDTA of 8.13 crore.

#### Exposure to raw material price volatility

The primary raw materials for the company are iron scrap and sponge iron. Sponge iron is sourced from the local suppliers. EASPL has its own network of companies supplying iron scrap, the scrap is purchased on the prevailing market rate depending on the quality of scrap. However, absence of any long term contracts and lag effect in the order of raw material and delivery to the manufacturing facilities and selling the finished products exposes the company to vagaries of commodities price cycle.

#### Working capital intensive nature of business

The company's reliance on working capital borrowing has been high. The company is required to extend credit period to its clientele due to competitive nature of industry. Albeit, the promoters constantly infuse funds to support the operations, the reliance on working capital borrowings has been high resulting in almost full utilization of the limits.

#### Highly competitive and cyclical nature of industry

The steel industry is highly competitive due to presence of various organized and unorganized players and limited product diversity due to commodity nature of products. Although over the years, industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

\*Issuer did not cooperate; Based on best available information

Also, the steel industry is sensitive to shifting business cycles including changes in general economy, interest rates and seasonal changes in demand and supply conditions in market.

### Key Rating Strengths

#### Moderate financial risk profile

The capital structure represented by overall gearing ratio remained at comfortable level with overall gearing of 0.65x as on March 31, 2021 (PY: 0.64x). The same is on an account of higher EBIDTA level in FY21 and accretion of the profits into the net-worth. The interest coverage ratio has slightly improved to 1.94x in FY21 (PY: 1.77x). Further, the total debt to GCA has also improved though remained high at 6.64x in FY21 (PY: 8.44x), mainly on account of improvement in cash accruals.

#### Experienced and resourceful promoters

The promoters of EASPL hold an experience of almost a decade in trading of iron scrap, sponge iron, ingots and manufacturing of the TMT Bars. EASPL was incorporated by Mr. Gaurav Aseem & his family in 2008, and the company started manufacturing of TMT Bars in October 2010. EASPL is managed by Mr. Gaurav Aseem, who is responsible for production, planning and marketing of the company. Mr. Gaurav Aseem also gets expert guidance from his father, Mr. Avdhesh Kumar who is the founder and ex-chairman of Bijnor Urban Cooperative Bank. Further, Mr. Gaurav Aseem is well supported by a team of professionals for each department like purchase, production, marketing, finance and administration. The promoters also extend financial support to the client in the form of unsecured loan in order to aid the operation.

#### Strong logistics, procurement and marketing arrangement

EASPL owns a fleet of 49 trucks and 3 tractors to ensure timely supply of freight, both inward and outward. Own logistic arrangement also help the company to reduce its freight cost and dependency on transportation companies for transporting its raw material from suppliers and finished goods to customers. Over the period the company has established its own supplier's network and eliminated the middleman which helped the company to gain better control over the supply and prices. The company has its own procurement offices in Ghaziabad, Aligarh, Bijnor, Sikandarabad and Bulandshahar to ensure timely supply of the scrap at competitive prices. Enershell also has a separate marketing team of 50-80 people operating from multiple office of the company, which take continuous follow-up and feedback from the existing customers and also generate new contact base.

#### Moderate operating cycle

Operating cycle moderated to 81 days in FY21 (PY: 68 days) due to higher inventory holding as at year end leading to 253 inventory days compared to 143 days in FY20, while creditors days stretched to 239 days in FY21 from 122 days in FY20. Creditors days stretched due to decline in scale of operations during the year, though creditors in absolute terms remains at similar level at Rs. 46.71 crore as at March 31, 2021 (PY: 45.07 crore). Collection period comes around 67 days in FY21 (PY: 48 days).

#### Capex plan

The company has undertaken capex w.r.t setting up of plant for manufacturing of structural steel. This would enable company to expand its product portfolio to angles, bars, channel, rounds and pipes. The capex was initiated in January 2019. The entire capex is being funded through internal accruals.

**Analytical approach:** Standalone

#### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[CARE's Policy on default recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology - Steel Industry](#)

[Rating Methodology - Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

EASPL incorporated in year 2008 is promoted by Mr. Gaurav Aseem & his family members. EASPL is engaged in manufacturing of TMT M.S Re-bars (TMT bars). It manufactures a variety of TMT bars ranging from 8 mm to 32 mm. The promoters of the company have almost a decade of experience in trading of iron scrap, sponge iron and other related products. The manufacturing facility is located at Chandpur (District Bijnor), Uttar Pradesh.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H12022 (UA)
Total operating income	155.39	95.83	46.99
PBILDT	13.02	14.35	8.13
PAT	1.01	0.29	1.40
Overall gearing (times)	0.64	0.65	Not Available
Interest coverage (times)	1.77	1.94	1.94

A: Audited, H1: April 01 to September 30

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

**Any other information:** Not Applicable

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

**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
Fund-based - LT-Term Loan	-	-	September 2023	9.71	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	15.20	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST-Term loan	-	-	-	9.25	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

**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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	9.71	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (16-Feb-21)	1)CARE BB; Stable (09-Dec-19)	1)CARE BB; Stable (26-Dec-18)
2	Fund-based - LT-Cash Credit	LT	20.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (16-Feb-21)	1)CARE BB; Stable (09-Dec-19)	1)CARE BB; Stable (26-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	15.20	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (16-Feb-21)	1)CARE A4 (09-Dec-19)	1)CARE A4 (26-Dec-18)
4	Fund-based - ST-Term loan	ST	9.25	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (16-Feb-21)	-	-

\*Issuer did not cooperate; Based on best available information

**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	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Term loan	Simple
4	Non-fund-based - ST-BG/LC	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 instrument:** CARE Ratings Ltd. 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.

## Contact us

### Media Contact

Name – Mr. Mradul Mishra  
Contact no. - +91-22-6754 3596  
Email ID - [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst Contact

Name: Puneet Kansal  
Contact no.: +91-11 - 4533 3225  
Email ID: [puneet.kansal@careedge.in](mailto:puneet.kansal@careedge.in)

### Relationship Contact

Name: Swati Agarwal  
Contact no.: +91-11-4533 3200  
Email ID: [swati.agrawal@careedge.in](mailto:swati.agrawal@careedge.in)

### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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