Shri Ambey Steel Industries

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	75.00 (Enhanced from 48.00)	CARE BBB-; Stable	Upgraded from CARE BB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the rating assigned to the bank facilities of Shri Ambey Steel Industries (SASI) takes into consideration improved operational performance marked by growing scale of operations on the back of healthy sales volume, improved sales realization across product categories supported by capacity expansion in Mild Steel (MS) billets and the commencement of the sale of ERW pipes in FY24 (refers to the period from April 01 to March 31). The rating also favourably factors in the experienced partners with diversified customer base of the firm, regular fund infusion and moderate financial risk profile of the firm. The rating, however, continues to remain constrained by risk associated with its low profitability margins, constitution of the entity being a partnership firm, susceptibility to volatility in raw material prices and highly competitive and cyclical nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent improvement in scale of operations as marked by total operating income of above Rs.900.00 crore along with profitability margins as marked by PBILDT margin of above 5.00% on a sustained basis.
- Improvement in the overall gearing ratio of below 1.10x.

Negative factors

- Any significant deterioration in the capital structure of the firm as marked by overall gearing ratio of above 1.50x.
- Decline in scale of operations by more than 20% from envisaged level and decline in profitability margins as marked by PBILDT margin below 3.00% on a sustained basis.
- Decline in debt coverage indicators as marked by interest coverage ratio to below 1.50x.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that entity will continue to benefit from the experienced partners of the entity coupled with growth in scale of operations with sustenance in profitability leading to sustainable financial risk profile of the firm over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful partners with diversified customer base of the firm: The firm is currently being managed by Mr. Sushil Bansal, Mr. Puneet Jaidka and Mr. Sumit Garg Mr. Sushil Bansal; is a graduate and holds an experience of around two decades in the steel industry through his association with this entity and other family run business. He is well supported by other partners; Mr. Puneet Jaidka and Mr. Sumit Garg having an experience up-to two decades in the steel industry. Thus, the partners are well-versed with the changing dynamics of the steel industry and are having the required technical know-how which is likely to benefit the firm in the long run. Further, the partners of the firm are resourceful and have provided continuous financial support through capital infusion of Rs.2.39 crore in FY23 and Rs.6.64 crore in FY24 to support business operations.

Further, SASI has been able to establish healthy relationship with its customers and managed to get repeat orders from its customers. The top six customer concentration risk continues to remain moderate ~29%, with no individual customer contributing more than 10% of total sales in FY24. Aided by its diversified customer base, the firm does not have reliance on any single customer pertaining to its revenue source, which in turn stabilize their financial position, and thereby reduces the risk of financial vulnerability arises due to concentration in from any customer in near future.

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

Growing scale of operations: The scale of operations of the SASI has shown a growing trend for the past three financial years (FY22-FY24) and has grown at a compounded annual growth rate (CAGR) of ~53.64% over the past 3 fiscals ending FY24. The total operating income (TOI) of SASI has increased to Rs.517.30 crore in FY24 from Rs.265.01 crore in FY23 reflecting y-o-y growth rate of 95.20% owing to healthy sales volume along with improved sales realization across product categories supported by capacity expansion in Mild Steel (MS) billets and ample demand for the products. Further, the firm has also started the sale of ERW pipes from October, 2023 and thus, the overall installed capacity of the products have increased from 60,000 MTPA in FY23 to 1,89,400 MTPA in FY24. Further, the firm has achieved total operating income of ~Rs.209.00 crore during Q1FY25 (refers to the period from April 1, 2024 to June 30, 2024; based on provisional results) and is expected to book total operating income of ~Rs.850.00 crore in FY25. Going forward, the stabilization in steel prices and steady demand from construction and real estate activities and expected growth of steel consumption in the auto sector will also augment the demand for steel in the ensuing years.

Moderate capital structure and debt coverage indicators: Overall gearing ratio stood at 1.17x as on March 31, 2024 showing moderation from 0.24x as on March 31, 2023 mainly on account of term loan availed to fund the capex along with the enhancement in its working capital limits to support its growing scale of operations. Further, the capital structure is expected to moderate marginally in the projected period as there will be higher utilization of its working capital limits to support its growing scale of operations. However, despite increase in debt levels, gearing is expected to remain at moderate levels in the near to medium term.
Further, the debt coverage indicators of the firm as marked by interest coverage ratio and total debt to GCA continue to remain moderate at 2.61x and 4.84x respectively, in FY24 as against 2.54x and 2.08x respectively, in FY23. The improvement in interest coverage ratio is on account of increase in PBILDT levels.

Moderate operating cycle: The operating cycle of the firm stood moderate as evident from 29 days for FY24. SASI is required to maintain adequate inventory in the form of raw material to ensure smooth production process as well as maintain stock of finished products in order to meet the immediate demand of the customers which resulted in an average inventory holding period of around 35 days for FY24. The firm has to offer liberal credit period of around a month to its customers resulting in an average collection period of 12 days for FY24. The firm has to make advance payments for the procurement of materials against the purchases from high seas whereas for local suppliers, it gets credit period of around a month.

Key weaknesses

Low profitability margins: The profitability margins of the firm stood low for the last three financial years (FY22-FY24) on account of raw material price volatility risk coupled with highly competitive nature of industry. The PBILDT margin of the firm improved to 4.77% in FY24 as against 3.66% in FY23. The improvement in PBILDT margin is on account of decline in overheads and economies of scale. However, PAT margin declined and stood at 0.98% in FY24 as against 1.14% in FY24 owing to increase in interest cost for the term loan availed for the capex undertaken along with high working capital utilization. Going forward, the stabilization in steel prices and uptick in demand for domestic steel players is expected to come from infrastructure push by the current government which will lead to stable profitability margins in the coming year.

Constitution of the entity being a partnership firm: SASI's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and the firm being dissolved upon the death/retirement/insolvency of partner. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

Susceptibility to volatility in raw material prices: The firm is susceptible to the volatility in the prices of steel for both finished goods and the raw material. The major raw materials for the firm are iron & steel scraps, sponge iron, aluminium bar, silicon manganese, etc., the prices of which remain volatile. There is no long-term contract for procurement of these raw materials and the firm sources its raw material on requirement basis from the open market and from local traders as well as through high seas at the prevailing market prices thereby, exposing it to any sharp volatility in prices, which may also have a direct bearing on operating margins of the firm. Though, the firm tries to pass on the price volatility to the end users, any sudden adverse fluctuations in raw material prices which the firm is unable to pass on to the customers completely owing to its presence in highly competitive industry, may adversely affect the profitability margins of the firm.

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 the industry has become more organized with the decline in the share of unorganized players, but margins continue to be under pressure due to fragmentation of the industry. Also, 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 economy. Any fall in the demand, in any of these sectors directly impacts the demand of steel products. Moreover, 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 conditions in the market. Further, the low level of product differentiation in the downstream steel segment further intensifies the competition, leading to lower bargaining power vis-à-vis the customers.

Liquidity: Adequate

The liquidity position of the firm remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The firm has reported net cash accruals (NCA) to the extent of Rs.15.93 crore during FY24 and is expected to generate NCA of Rs.17.61 crore for FY25 against scheduled repayment obligations of Rs.5.57 crore in same year. Further, the average utilization of working capital limits remained almost 90% for the past 12 month's period ending August, 2024. SASI's liquidity profile is also supported by free cash and bank balances which stood at Rs.2.62 crore coupled with continuous support by the partners through infusion of funds in the partner's capital base which stood at Rs.6.64 crore as on March 31, 2024. Further, the firm does not have any significant capex plan in the near term.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Iron & Steel
Wholesale Trading

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Khanna (Punjab) based, Shri Ambey Steel Industries (SASI) was established in November, 2017 as a partnership firm and was engaged in the trading of scraps. Later in 2018, the firm set up the manufacturing unit and its commercial operations started from April, 2019. The current partners of the firm are namely; Mr. Sushil Bansal, Mr. Puneet Jaidka, Mrs. Sherry Jaidka and Mr. Sumit Garg sharing profits and losses in the ratio of 30%, 25%, 25% and 20% respectively. The firm is engaged in the manufacturing of steel products such as Mild Steel (MS) billets, Hot Rolled (HR) Coil, etc. The manufacturing facility of the firm is located at Khanna, Punjab having a combined installed capacity to manufacture 1,89,400 MT per annum of steel products as on March 31, 2024. Besides this, the firm is also engaged in the trading of iron & steel scraps, HR coil and billets which contributes ~25% in FY24 of the total sales based on available opportunities. From FY24, the firm has also set up a unit at is existing vicinity for the manufacturing of Electric resistance welded (ERW) pipes.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (Prov.)*
Total operating income	265.01	517.30	209.00
PBILDT	9.69	24.70	NA
PAT	3.01	5.05	NA
Overall gearing (times)	0.24	1.17	NA
Interest coverage (times)	2.54	2.61	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'
*refers to the period from April 1, 2024 to June 30, 2024.

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	44.86	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March, 2031	30.14	CARE BBB-; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	30.14	CARE BBB-; Stable	-	1)CARE BB+; Stable (13-Feb-24)	-	-
2	Fund-based - LT-Cash Credit	LT	44.86	CARE BBB-; Stable	-	1)CARE BB+; Stable (13-Feb-24)	-	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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