

## Amman-Try Sponge and Power Private Limited

December 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	151.68 (Reduced from 163.75)	CARE BBB; Stable	Reaffirmed; Outlook revised from Positive
Long-term / Short-term bank facilities	40.00	CARE BBB; Stable / CARE A3+	Assigned
Short-term bank facilities	50.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Amman-Try Sponge and Power Private Limited (ATSPL) consider sharp increase in the company's scale of operations on the back of a full year of operations on an expanded capacity. Ratings also note that with the establishment of the rolling mills and billets in a single location, operational efficiencies of the plant improved. Ratings continue to factor in significant experience and long track record of promoters in the steel industry and established market position with partly integrated nature of operations.

However, ratings are constrained considering commodity nature of the finished product, margins susceptible to volatile raw material prices and foreign exchange rate fluctuations, and cyclical nature of the steel industry. Ratings are also constrained by the working capital intensive operations, which led to a sharp increase in leverage ratios with increase in scale of operations.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive factors

- Improvement in total operating income (TOI) with profit before interest, lease rentals, depreciation and taxation (PBILDT) margins above 7% on a sustained basis.
- Improvement in total debt to earnings before interest, taxation, depreciation, and amortization (TD/EBITDA) below 2.80x on a consistent basis.

#### Negative factors

- Consistent decline in EBIDTA margins below 3%.
- Deterioration in TD/EBITDA above 6.5x on a sustained basis.

### Analytical approach: Combined

CARE Ratings Limited (CARE Ratings) has combined credit risk profile of ATSPL and its group companies, Shri Amman Steel and Allied Industries Private Limited (SASAI) and Amman Try Steels Private Limited (ASPL) (hereafter referred to as the Amman Group), as all entities are engaged in a similar line of business, share significant group synergies, and operate under the same management.

### Outlook: Stable

CARE Ratings had a 'Positive' outlook on the company's ratings considering anticipated growth in the revenue and accruals in FY24, driven by operational benefits of capital expansion. Although the group could scale up its operations, leverage levels have weakened with higher-than-expected working capital borrowings, and hence, the outlook has been revised to stable. CARE Ratings believes that the company's ability to maintain its market position and stable demand scenario shall enable it to sustain its business profile in the medium term, while leverage levels are expected to remain high in the medium term.

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

## Detailed description of key rating drivers:

### Key strengths

#### Experience of promoters and long track record of operations

The Amman group was promoted by S. P. Muthuramalingam, having experience of over three decades in the steel industry and is the group's chairman. The group came into being when he established Amman Steel Corporation (ASC) in 1978 for trading steel scrap. His son, Somasundaram (Managing Director of ATSPL) was instrumental in establishing SASAI and other group companies and has been associated with the group since 1999. SASAI was incorporated in 1998 and is engaged in manufacturing and selling thermo-mechanically treated (TMT) bars. The group also established another rolling mill, ASPL in 2006, engaged in manufacturing and selling TMT bars. SASAI and ASPL have rolling mill facilities in Trichy, Tamil Nadu. ATSPL has its manufacturing facility in Nellore, Andhra Pradesh. Promoters are involved in strategic decision making, while day-to-day operations are largely delegated to a team of managers.

#### Established market position with partially integrated operations

The group companies (SASAI and ASPL) are engaged in manufacturing and selling TMT steel bars under the brand name 'Amman TRY', a recognised brand in Tamil Nadu, catering mainly to the construction industry. The Amman group has a distribution network of ~450 dealers and entire sales to retail customers is through them. To cater to the group's raw material requirement, ATSPL was established in 2008 for backward integration to manufacture mild steel billets. In FY23, ATSPL completed the capex to enhance the group's mild steel billet manufacturing capacities from 65000 MTPA to 180000 MTPA and TMT bar capacities from 80000 MTPA to 260000 MTPA. Post completion of the capex, ATSPL, which was only manufacturing MS Billets also started manufacturing TMT bars. The group also has two windmills with total capacity of 2500 kilowatts (kWh) in Tamil Nadu that satisfies ~20%-25% of the group's power requirement.

#### Healthy operational performance in FY24 and H1FY25

The group's TOI grew by 37% in FY24 and stood at ₹918 crore (PY: ₹672 crore) primarily driven by improved sales volume of TMT bars, which increased by 53% to 161969 MT in FY24 from 105803 MT in FY23 aided by expanded capacity and improved capacity utilisation. PBILDT margins improved to 6.37% in FY24 against 5.49% in FY23 considering structural cost savings and integration benefits from the additional capacities. In H1FY25, the group recorded a turnover of ₹448 crore with a PBILDT of ₹43 crore.

### Key weaknesses

#### Moderation in financial risk profile

The group's capital structure moderated with overall gearing of 2.14x as on March 31, 2024 (PY: 1.55x) due to debt funded growth. Debt coverage indicators, marked by total debt to gross cash accruals (TD/GCA) stood moderated at 13.60x as on March 31, 2024 (FY23: 10.02x). Interest coverage indicators also stood moderated marked by PBILDT/Interest at 1.83x as on March 31, 2024 (FY23: 2.94x). Moderation was primarily on account of sharp increase in working capital borrowings in the wake of increase in scale of operations and lower-than-anticipated improvement in operating margins in FY24. The group's working capital requirements are expected to remain elevated to support the envisaged revenue growth, which shall keep overall gearing in the range of 1.5-2.0x in the medium term.

#### Volatile profit margin due to commoditised nature of products

Due to the commodity nature of finished products and volatile raw material prices, profitability margins are low. Products of the Amman group are mainly used in industrial and commercial construction. To mitigate increase in costs considering volatile raw material prices, the group has been focusing on increasing level of integration and achieving higher operational efficiency and decreasing power cost by use of good quality scrap material.

#### Raw material price risk and foreign exchange risk

The steel industry is sensitive to shifting business cycles including changes in the general economy and seasonal changes in demand and supply conditions in the market. Basic raw materials such as sponge iron, pig iron and scrap, which are sourced from the market and their prices are volatile. Scrap prices are generally volatile. Around 50-55% of raw materials consumed is imported from South Africa, Germany, Singapore and Brazil. The lead time for raw material is ~60 days. Sharp volatility in currency exchange rates in this period exposes the company to foreign exchange fluctuation risk, although a part of it is mitigated by the company usually hedging its forex exposure fully.

### Liquidity: Adequate

The group has adequate liquidity characterised by sufficient cushion in projected accruals against repayment obligations of ₹11 crore in FY25 and cash balance of ₹16.50 crore as on March 31, 2024. The operating cycle stood moderated at 99 days (PY: 60 days) due to an increase in the inventory levels marked by average inventory period of 119 days (PY: 81 days). The current ratio of the group was at 1.22x as on March 31, 2024. The average utilisation of working capital limits stood at 80-85% for the 12-months ending in November 2024.

### Applicable criteria

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

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### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & mining	Ferrous metals	Iron & steel

ATSPL is part of the Tamil Nadu-based Amman group of companies, having interests in manufacturing steel ingots and steel bars, local bus transportation and real estate. To meet raw material requirement of its group companies, SASAI and ASPL, the group has established billet making unit under ATSPL. ATSPL was incorporated in September 2008 and commenced commercial operations in July 2011. It is engaged in manufacturing steel billets. ATSPL has a steel melting shop in Nellore, Andhra Pradesh, with production capacity of 180,000 tonnes per annum (TPA) of billets and an integrated rolling mill of similar capacity (1.8 lakh TPA).

Brief Combined Financials – Amman Group (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	H1FY25 (UA)
Total operating income	671.46	917.83	447.61
PBILDT	36.83	58.49	43.14
PAT	10.98	8.83	17.46
Overall gearing (times)	1.55	2.14	2.00
Interest coverage (times)	2.94	1.83	2.76

UA: Unaudited, Note: these are latest available financial results

Brief Standalone Financials – ATSPL (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	505.56	830.84	369.16
PBILDT	27.94	41.04	32.80
PAT	7.22	7.51	15.10
Overall gearing (times)	1.73	2.72	2.33
Interest coverage (times)	3.02	2.33	3.57

A: Audited, UA: Unaudited, Note: these are latest available financial results

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

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instruments / facilities:** Annexure-3

**Complexity level of 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		-	-	-	125.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	31/03/2027	26.68	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	40.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	50.00	CARE A3+

**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-Cash Credit	LT	125.00	CARE BBB; Stable	-	1)CARE BBB; Positive (23-Nov-23)	1)CARE BBB; Positive (04-Nov-22)	1)CARE BBB; Stable (30-Dec-21)
2	Non-fund-based - ST-Letter of credit	ST	50.00	CARE A3+	-	1)CARE A3+ (23-Nov-23)	1)CARE A3+ (04-Nov-22)	1)CARE A3+ (30-Dec-21)
3	Fund-based - LT-Term Loan	LT	26.68	CARE BBB; Stable	-	1)CARE BBB; Positive (23-Nov-23)	1)CARE BBB; Positive (04-Nov-22)	1)CARE BBB; Stable (30-Dec-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ST	40.00	CARE BBB; Stable / CARE A3+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/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
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

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

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

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### About us:

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### Disclaimer:

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