Ajar Amar Steel Concast

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	51.19	CARE D; ISSUER NOT COOPERATING*	Downgraded from CARE BB-; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	28.81	CARE D / CARE D; ISSUER NOT COOPERATING*	Downgraded from CARE BB-; Stable / CARE A4 and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Ajar Amar Steel Concast to monitor the ratings vide e-mail communications/letters dated December 11, 2024; December 12, 2024; and December 16,2024, 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 Ajar Amar Steel Concast's bank facilities will now be denoted as CARE D/ CARE D; 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 rating(s).

The rating assigned to the bank facilities of Ajar Amar Steel Concast (hereinafter referred to as AASC) have been revised on account of the recent delays in debt servicing obligations of the company as confirmed by the bankers. However, the reasons could not be ascertained due company's non-cooperative status.

The ratings also factor in its modest though improving scale of operations coupled with low profitability margins and below average financial risk profile as marked by leveraged capital structure and weak coverage indicators. The ratings further remain constrained due to highly competitive and cyclical nature of industry, exposure to foreign exchange fluctuation risk and Susceptibility to volatility in raw material prices. The ratings, however, draw comfort from the experienced partners and moderate operating cycle of the firm.

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of key rating drivers: At the time of last rating on June 18, 2024, the following were the rating strengths and weaknesses.

Key weaknesses

Delay in debt servicing: As confirmed by the lenders, the company has defaulted on its debt repayments during October 2024 which were repaid with a delay of around 2 months.

Modest though improving scale of operations

The firm's total operating income (TOI) grew from Rs.185.87 crore in FY23 (refers to the period April 01,2022 to March 31,2023) to Rs.201.96 crore in FY24 owing to ample demand for the products resulting in higher quantity sold to the existing customers along with improved sales realization across product categories during the period. Further, the scale of operations is expected to remain modest in the medium term.

Low Profitability margins

The PBILDT margin of the firm improved and stood at 3.66% in FY24 as against 2.83% in FY23 on account of decrease in overhead expenses. However, despite improvement, PBILDT Margin remained low owing to limited value addition in the products.

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

PAT margin of the firm also remained low at around 0.80% to 1.20% owing to high interest burden due to high reliance of the firm on external funds to support its growing scale of operations. Further, owing to limited value addition and high reliance of external funds, profitability margins are expected to remain at similar level during short to medium term.

Leveraged capital structure and Weak debt coverage indicators

The capital structure of the firm stood leveraged at around 2x as on the balance sheet date ending March 31, 2023(A) on account of high reliance of bank debt coupled with modest net worth base. Further, owing low profitability, the debt coverage indicators of the firm remained weak as marked by interest coverage ratio and total debt to GCA stood weak at 1.74x and 18.11x respectively in FY23 (Prov.) as against 2.26x and 19.19x respectively in FY22.

Foreign exchange fluctuation risk

The firm meets around 20%-25% of its procurement of raw materials, consumables & spares in the form of imports from Middle East countries while it sells its finished products in domestic market. With initial outlay for procurement in foreign currency and the significant chunk of sales realization in domestic currency, the firm is exposed to the fluctuation in foreign exchange rates which the firm does not hedge. Thus, firm is exposed to fluctuations in the value of rupee against foreign currency which may impact its profitability margins. Moreover, any change in government policies, either domestic or international is likely to affect the firm's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non- tariffs barriers (restriction on the quality of imports), anti- dumping duties, international freight rates and port charges.

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 and ferro alloys, the prices of which remain volatile. The firm does not enter into any long-term contract for procurement of these raw materials and sources its raw material on requirement basis from the open market and from local traders 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 firm's 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 share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry. Also, the steel industry 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. 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.

Constitution of the entity being a partnership firm

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

Key strengths

Experienced Partners

Ajar Amar Steel Concast is a family run business and the firm was established in 2019 by Mr. Ajay Kumar Jain, Mr. Sorav Jain, Mr. Archit Jain & Mr. Rakesh Kumar Jain. The partners are qualified graduates and have experience of more than two decades in same line of business along with association with other associate firms. All the partners look after the overall functions of the business and manages the day-to-day operations of the firm. They are assisted by a team of qualified professional having relevant experience in their respective fields.

Moderate operating cycle

The operating cycle of the firm stood moderate in FY24 on account of moderate inventory and collection period. The firm is required to maintain an adequate inventory in the form of raw materials to ensure smooth production process as well as maintain stock of finished products in order to meet the immediate demand of the customers which results in an average inventory holding period of around 25-30 days. The firm offers a credit period of around one month to its customers resulting in an average collection period of 20-30 days.

Liquidity: Not Applicable

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Policy in respect of non-cooperation by issuers
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Policy On Curing Period
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

Ajar Amar Steel Concast is a partnership firm, incorporated in 2019 whereas the firm had started the commercial operations on March 2021. In the beginning, the firm used to make ingots from the furnace which were used in rolling mills. From 2022, the firm install CCM i.e continuous casting machine & rolling mill in the existing factory premises to make it a semi-integrated unit. Current capacity of rolling mill is 15 tonne which is about to be enhanced to 25 tonnes. The firm has its manufacturing unit based at Ludhiana. The firm has four partners Mr. Ajay Kumar Jain, Sorav Jain, Archit Jain & Rakesh Kumar Jain.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	FY24 (UA)
Total operating income	141.94	185.87	201.96
PBILDT	3.38	5.25	7.40
PAT	1.78	1.66	-
Overall gearing (times)	3.00	1.95	-
Interest coverage (times)	2.26	1.74	-

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 instrument / facility: 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	18.00	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	-	June 2031	33.19	CARE D; ISSUER NOT COOPERATING*
Fund-based/Non-fund-based-LT/ST	-	-	-	-	28.81	CARE D / CARE D; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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	18.00	CARE D; ISSUER NOT COOPERATING*	1)CARE BB-; Stable (18-Jun-24)	-	-	-
2	Fund-based - LT-Term Loan	LT	33.19	CARE D; ISSUER NOT COOPERATING*	1)CARE BB-; Stable (18-Jun-24)	-	-	-
3	Fund-based/Non-fund-based-LT/ST	LT/ST	28.81	CARE D / CARE D; ISSUER NOT COOPERATING*	1)CARE BB-; Stable / CARE A4 (18-Jun-24)	-	-	-

*Issuer did not cooperate; based on best available information.
LT: Long 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

Annexure-5: Lender details

To view the 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.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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