April 25, 2022

Agni Steels Private Limited: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	85.00	85.00	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Term Loans	25.49	56.35	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Bills Discounting	25.00	5.00	[ICRA]A2+; upgraded from [ICRA]A2
Interchangeable Limits (sublimit of Bills Discounting)	(25.00)	(5.00)	[ICRA]A2+; upgraded from [ICRA]A2
Untied Limits	10.89	-	-
Total	**146.38**	**146.35**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings action factors in Agni Steels Private Limited's (ASPL) surge in earnings since FY2021 and expected sustenance of the same in FY2023. Supported by a strong rebound in steel demand after relaxation of the lockdown restrictions, ASPL posted an operating profit of Rs. 46.21 crore in FY2021, increasing from Rs. 34.78 crore in FY2020. The healthy financial performance continued in FY2022 with the company posting its best-ever annual operating profits of Rs. 51.91 crore (as per provisional figures). ICRA expects ASPL's profits to remain at attractive levels in the next 12 months as steel prices continue to remain elevated, supported by the recovery in steel demand in key global steel consuming hubs outside China. Although raw material prices have increased consistently in the recent months, ICRA does not expect any significant deterioration in ASPL's steel spreads as steel realisations have also maintained an upward trend. The ratings action also considers ASPL's recently concluded capex towards setting up a 10-MW solar power generation unit, which once operational, will enable sizeable cost savings, going forward, and cushion its profits during periods when steel prices remain less buoyant. The ratings continue to derive comfort from the extensive experience of ASPL's promoters in the steel industry and their established operational track record. ASPL markets its rebars primarily in Tamil Nadu and Kerala under the 'AGNI TMT' brand. The brand enjoys an established position in the markets served by the company due to its quality specifications. Strong brand presence enables the company to enjoy premium pricing compared to other regional players, thus supporting profitability. ICRA believes that ASPL's premium pricing has aided it to report profitable operations even during periods of deep industry downturns, as witnessed during the metals meltdown of FY2016, when the company reported a modest net profit of Rs. 4.71 crore. The ratings also favourably factor in the comfortable financial risk profile of ASPL, characterised by the company's conservative capital structure and healthy debt coverage indicators, and the company's moderate backward integration, partly fulfilling the requirement of sponge iron, billets, and power required for TMT bar production.

The ratings, are, however, constrained by ASPL's high geographical concentration risk with the major portion of its revenues derived from dealers in Tamil Nadu and Kerala markets, and intense competition in the fragmented and commoditised long steel market, partly limiting its pricing flexibility. The ratings further remain constrained by the exposure of the company to the cyclicality inherent in the steel industry and susceptibility of ASPL's profitability to the volatility in raw material prices and end-product realisations. Additionally, ICRA notes that ASPL's payouts to promoters remained elevated in the past and increased significantly in FY2021. Such large payouts, in the form of director remuneration, adversely impacts the business return indicators, although the same remained comfortable on an absolute basis.

The Stable outlook on the long-term rating reflects the favourable operating environment for the steel industry, which is expected to lead to yet another year of healthy earnings growth for ASPL in FY2023. The company's planned capital allocation on cost savings/efficiency improvement capex has attractive payback periods, which ICRA expects would support ASPL's earnings during periods when the steel spreads move towards more sustainable levels from the prevailing highs.

Key rating drivers and their description

Credit strengths

Significant experience of the management and operational track record of the company – ASPL was established in 1989 and has been involved with the business of metal and allied products since then. Given the long experience of the promoters in the industry and the established operational track record, the company has been able to develop a wide network of suppliers and customers.

Healthy growth in earnings since FY2021; earnings outlook for FY2023 remains favourable – Supported by a strong rebound in steel demand post relaxation of the lockdown restrictions, ASPL posted an operating profit of Rs. 46.21 crore in FY2021, increasing from Rs. 34.78 crore in FY2020. The healthy financial performance continued in FY2022 with the company posting its best-ever annual operating profits of Rs. 51.91 crore (as per provisional figures). ICRA expects ASPL's profits to remain at attractive levels in the next 12 months as steel prices continue to remain elevated, supported by the recovery in steel demand in key global steel consuming hubs outside China. Although raw material prices have increased consistently in the recent months, ICRA does not expect any significant deterioration in ASPL's steel spreads as steel realisations have also maintained an upward trend.

Comfortable financial risk profile – Notwithstanding an increase in the total debt outstanding in the books of the company to part fund the capex towards setting up the captive solar power plant and increased working capital requirements, ASPL's financial profile has been comfortable, as characterised by its conservative capital structure (gearing of 0.8 times and TOL/TNW[1] of 1.2 times as on March 31, 2022) and healthy debt coverage indicators (interest coverage of 7 times and DSCR of 2.5 times in FY2022). The credit indicators are expected to remain healthy in the near-to-medium term on the back of healthy profitability and the company's prudent capital allocation practices.

Strong brand presence enables ASPL to enjoy premium pricing – ASPL markets its rebars primarily in Tamil Nadu and Kerala under the 'AGNI TMT' brand. The brand enjoys an established position in the markets served by the company due to its quality specifications. Strong brand presence enables the company to enjoy premium pricing compared to other regional players, thus supporting profitability.

Moderate backward integrated plant with captive facilities for sponge iron, MS billets and power – ASPL remains moderately backward integrated with manufacturing capacities for sponge iron, which partly serves as feedstock for manufacturing of billets. The manufactured billets, which meet a large part of its captive requirements are then subjected to rolling to produce TMT bars of desired profile. In addition, a part of its total power requirement is met through captive sources, thus positively impacting the cost structure.

Sizeable cost savings following expected commissioning of the new solar power generation unit in April 2022 – ASPL has recently concluded the capex towards setting up a 10-MW solar power generation unit at a capital cost of around Rs.48 crore, expected to be operational from end-April 2022. Once operational, the total power requirement met through captive sources will increase to around 28% from the present levels of 11-12%. Given the lower generation costs of captively generated power,

[1] Total outside liabilities to tangible net worth

the same will enable sizeable cost savings, going forward and cushion its profits during periods when steel prices remain less buoyant.

Credit challenges

High geographical concentration risk – ASPL's products are mainly sold in Tamil Nadu and Kerala, exposing it to the high geographical concentration risk. Around 90% of the company's operating income is derived from sales made to Tamil Nadu and Kerala and the remaining from Karnataka and Andhra Pradesh.

Intense competition from the highly fragmented and commoditised steel market – The long steel manufacturing businesses is characterised by intense competition due to low product differentiation and limited entry barriers, which limit the pricing flexibility of the players, including ASPL.

Susceptibility of margins to raw material price fluctuations and foreign exchange rate fluctuation risks – ASPL's operations are raw material intensive with raw materials and consumables consumption accounting for over 60% of its operating income over the last three fiscals. The company imports a part of its scrap requirement, which further exposes the company to fluctuations in exchange rates.

Exposure to cyclicality inherent in the steel industry – The domestic steel industry is cyclical in nature and is likely to keep the cash flows volatile for steel players, including ASPL. The company's operations are vulnerable to any adverse change in the demand-supply dynamics in the construction sector, especially in Tamil Nadu and Kerala. ICRA, however, notes that ASPL's premium pricing has aided it to report profitable operations even during periods of deep industry downturn, as witnessed during the metals meltdown in FY2016, when the company reported a modest net profit of Rs.4.71 crore.

Large payouts to promoters impact business return indicators – ICRA notes that ASPL's payouts to promoters have remained elevated in the past and had increased significantly in FY2021. Such large payouts, in the form of director remuneration, adversely impact the business return indicators, although the same remained comfortable on an absolute basis.

Liquidity position: Adequate

ASPL's liquidity position has been assessed as **adequate** with undrawn working capital lines of around Rs. 23 crore as on March 31, 2022 and healthy free cash flows expected over the medium term. The company has a maintenance capex commitment of around Rs. 10 crore and scheduled debt repayment obligations of around Rs. 7 crore in FY2023 against the said sources of cash. Overall, ICRA expects ASPL to be able to comfortably meet its capex commitments and service its debt obligations through internal sources of cash.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if ASPL is able to improve the profitability levels, leading to further strengthening of the credit metrics. Specific credit metrics that may lead to ratings upgrade include RoCE of more than 18% on a sustained basis.

Negative factors – Pressure on ASPL's ratings could arise if a decline in profitability or a rise in the debt-funded capex or investment results in a deterioration in the liquidity position and credit indicators. Specific credit metrics that may lead to ratings downgrade include Total Debt/OPBIDTA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Ferrous Metals Industry](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of ASPL.

About the company

Incorporated in 1989, ASPL manufactures TMT bars, with a capacity to produce 1,64,000 MTPA. It also has facilities to produce sponge iron (36,000 MTPA) and billets (136,800 MTPA), which are used for captive consumption. The company's manufacturing unit is located near Erode, Tamil Nadu. Promoted by Mr. M Chinnasami, Mr. R Krishnamoorthy and Mr. K Thangavelu, ASPL sells its products through its dealer network under the brand name, AGNI TMT.

Key financial indicators (Audited)

ASPL Standalone	FY2021	FY2022^
Operating Income (Rs. crore)	573.4	799.0
PAT (Rs. crore)	26.6	29.4
OPBDIT/OI (%)	8.1%	6.5%
PAT/OI (%)	4.6%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)	1.5	2.1
Interest Coverage (times)	7.9	7.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 25, 2022	Jul 15, 2021	Jul 2, 2020	Sep 6, 2019
1	Term Loans	Long Term	56.35	54.47	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB- (Stable)
2	Working Capital Facilities	Long Term	85.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB- (Stable)
3	Bills Discounting	Short Term	5.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Interchangeable Limits (Sublimit of Bills Discounting)	Short Term	(5.00)	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Non Fund- Based facilities	Short Term	-	-	-	-	[ICRA]A2	[ICRA]A2

6	Untied Limits	Long Term / Short Term	-	-	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Negative) / [ICRA]A2	[ICRA]BBB- (Stable) / [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Working Capital Facilities	Simple
Bills Discounting	Very Simple
Interchangeable Limits	Very Simple
Untied Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loans	March 2019	NA	FY2029	56.35	[ICRA]A- (Stable)
NA	Working Capital Facilities	-	NA	-	85.00	[ICRA]A- (Stable)
NA	Bills Discounting	-	NA	-	5.00	[ICRA]A2+
NA	Interchangeable Limits	-	NA	-	(5.00)	[ICRA]A2+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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