

October 10, 2024

Ajay Steels Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term / Short term –Fund based/ Non-fund based limits (LC/BG/SBLC/Buyers Credit/Cash Credit)	30.00	30.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Short term –non-fund based limits (LC/SBLC)	30.00	30.00	[ICRA]A1+; reaffirmed
Total	60.00	60.00	

*Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has considered the consolidated operational and financial profiles of Ajay Steels Private Limited along with four other Group companies - API Ispat and Powertech Private Limited (API; rated at [ICRA]AA-/Stable and [ICRA]A1+), Real Ispat & Power Limited (RIPL; rated at [ICRA]AA-/Stable and [ICRA]A1+), Shivalay Ispat and Power Private Limited (SIPPL) and Real Ispat and Energy Private Limited (RIEPL; rated at [ICRA]AA-/Stable and [ICRA]A1+) - because of the managerial, operational and financial linkages among these Group companies. RIEPL has been incorporated by the Group for a greenfield capex, and there is likely to be significant fungibility of funds between RIEPL and the above Group companies. Hence, ICRA has included RIEPL for a consolidated rating view.

The rating reaffirmation continues to consider the long track record of the Real Group in the steel business as well as the Group's integrated nature of operations with operational linkages among the Group companies. Besides, the presence of captive power plants (CPPs) positively impacts the cost structure. ICRA notes the proximity of the Group's plants to iron ore and coal mines and the bulk import of coal through ASPL, which renders raw material security. The ratings also draw comfort from the Group's robust financial profile, reflected in its healthy cash accruals, a conservative capital structure and strong debt coverage indicators on a consolidated basis. The average steel realisations moderated in FY2024 from the levels seen in the previous two fiscals, impacting the operating margins for the year. However, lower coal and iron ore prices during the year partially offset the impact of subdued realisations with the Group reporting a consolidated OPBITDA of ~Rs. 347 crore vis-à-vis ~Rs. 385 crore in FY2023.

ICRA expects the company's sales volumes to remain healthy in the near to medium term on the back of steady demand expected from the end-user industries. Also, the sales realisation continued to be muted in the current fiscal till date, which is likely to constrain the operating margins to an extent. The movement in steel prices in the second half of the current fiscal would be crucial in determining the overall margins of the Group. Further, the ratings will continue to be constrained by the Group's exposure to the cyclicity inherent in the steel industry.

The ratings also factor in the progress of the ongoing capex in RIEPL to enhance backward integration and fully integrate the Group's operations. So far, RIEPL has commissioned a direct reduced iron (DRI) plant of 2,00,000 tpa and a 20-MW waste heat recovery (WHR) CPP in March 2024, and the same is expected to improve the cost structure in the current fiscal. A major improvement in the cost structure is expected from the commissioning of an 8,00,000-tpa pellet plant in Q1 FY2026 as it will significantly reduce the Group's dependence on external pellets and iron ore lumps. ICRA also notes that the overall capex costs have increased by ~Rs. 350 crore with change in the project scope (infrastructure being set up for 1 mtpa capacity).

However, the Group's strong financial flexibility, the sizeable free cash available with it and a large buffer in the working capital utilisation mitigate the funding risks in relation to the capex. Nevertheless, the Group would remain exposed to the risks associated with the execution of the project within the budgeted cost and estimated timeframe.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the overall financial risk profile of the Group is likely to remain healthy, despite its sizeable ongoing capex.

Key rating drivers and their description

Credit strengths

Long track record of the Group in steel business – The Real Group has an experience of more than two decades in the steel manufacturing business. Its finished goods brands (GK TMT rebar and real wires) have an established market presence and acceptability among large institutional clients as well as retail consumers. The Group's scale of operation has grown consistently over the past few years through inorganic and brownfield expansion. It acquired API in FY2015 and subsequently added significant capacities in RIPL as well as API, which strengthened the Group's market presence.

Integrated nature of operations with operational linkages among Group companies; ongoing greenfield capex in RIEPL to further enhance backward integration - The Group primarily sells TMT bars, wire rods and wires, which are relatively value-added products. The intermediate products (sponge iron and billets) are mainly consumed internally within the Group. The Group's steel-melting operation is highly power intensive. However, the power generated from the CPPs (65.5 MW, including 48.5 MW through waste-heat recovery) at a cheap rate meets a significant portion of the Group's total power requirement, reducing the overall production cost. The Group companies source intermediate raw materials and power from each other. The vertical integration in operation and the operational linkages among the Group companies positively impact the Group's overall cost structure. The ongoing greenfield capex would enhance the backward integration in the Group's operations and increase the overall CPP capacity. This is likely to positively impact the Group's consolidated profitability after successful commissioning and stabilisation of the key project facilities.

Proximity to domestic raw material sources and bulk import of coal enhance raw material security – The steel manufacturing facilities of the Group are in proximity to the sources of key raw materials, iron ore and non-coking coal, leading to relatively lower landed cost and raw material security. The Group procures iron ore mainly from the National Mineral Development Corporation (NMDC) and procures a portion of coal from South-Eastern Coalfields Limited (SECL) through linkages. The Group had reduced the volume of high-cost coal linkages in the previous fiscal owing to the lower availability of linkage coal. In addition to the procurement of coal through auctions from nearby mines, the centralised import of higher quality coal in bulk volumes through ASPL mitigates the coal availability risks. The Group's dependence on the external purchase of the intermediate raw materials like iron ore pellets, sponge iron and ferro alloys will reduce significantly after the commissioning of all the facilities in the ongoing greenfield capex.

Robust financial profile of the Real Group - The Group's consolidated net cash accruals have remained healthy in the recent fiscals at ~Rs. 284 crore in FY2024 and have been more than ~Rs. 250 crore FY2021 onwards. A low debt level and a healthy tangible net worth due to strong accretion to reserves over the years led to a conservative gearing of the Group (at 0.1 times or less during FY2019 to FY2024). A conservative capital structure and healthy profits at an absolute level resulted in strong debt coverage metrics for the Group. This is reflected in an interest coverage of ~23 times in FY2024 (~86 times in FY2023) and total debt relative to OPBDITA of 0.1 times as on March 31, 2024 (0.4 times as on March 31, 2023).

Credit challenges

Exposed to cyclicity inherent in the steel industry – The steel industry is characterised by its inherent cyclicity. This is likely to keep the profitability and cash flows of all the players in the industry, including the Real Group, volatile going forward.

Execution and ramp-up risks associated with the sizeable ongoing capex - The Group is undertaking a greenfield capex of ~Rs. 850-900 crore. The facilities under the ongoing capex include an iron ore pelletisation capacity of 0.8 million tonnes per annum (including beneficiation), sponge iron capacity of 2,00,000 tpa (already commissioned), captive power plants of 40 MW through waste-heat recovery (20MW already commissioned), a ferro alloy facility of 9 MVA and a railway siding of 2.5 km (awaiting final connectivity with main line). The commissioning of the pelletisation capacity is expected in Q1 FY2026, while the rest of the facilities are expected to be commissioned by the end of Q3 FY2026. The capex has been undertaken in the new entity, RIEPL.

The Group has so far incurred around ~Rs. 650 crore for the project, with the entire cost expected to be funded from internal accruals, given the Group's strong liquidity position and the healthy financial flexibility of the promoter Group. The consolidated capital structure and debt coverage metrics are likely to remain strong despite the large capex. After commissioning, the capex would result in enhanced value addition due to a higher degree of backward integration and an increase in captive power capacity. Nevertheless, the Group would remain exposed to the risks associated with the execution of the project within the budgeted cost and the estimated timeframe.

Liquidity position: Strong

The Group's liquidity position is likely to remain strong. Its cash flow from operations is expected to remain healthy at more than ~Rs. 250 crore in FY2025. Such a healthy cash flow from operations along with sizeable free liquid investments, fixed deposits of more than Rs. 100 crore in the Group as on March 31, 2024 and sizeable undrawn working capital limits are likely to keep the Group's liquidity strong despite the sizeable outflow of ~Rs. 240 crore expected in FY2025 for the ongoing capex. The Group does not have any long-term loan repayment obligation currently and its reliance on external debt to fund the capex, if any, would remain limited due to its strong liquidity and the healthy financial flexibility of the promoter Group.

Rating sensitivities

Positive factors – ICRA may upgrade the long-term rating if the Group's consolidated revenue and cash accruals register a significant growth with an improvement in the profit margins and a sustained healthy liquidity position.

Negative factors – Pressure on the ratings may arise if a deterioration in steel demand and realisations affects the Group's revenues and cash accruals significantly. A sustained deterioration in ROCE below 18% on a consolidated basis may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the Group entities (as mentioned in Annexure-II), given the close business, financial and managerial linkages among them

About the company

Ajay Steels Private Limited (ASPL), Incorporated in 2003, Ajay Steels Private Limited (ASPL) is a part of the Chhattisgarh based Real Group. ASPL was initially involved in steel trading. However, the steel trading operation was discontinued subsequently due to the Group's increased focus on steel manufacturing. From January FY2019, the company started trading of coal. It is currently importing steam coal from South Africa and is also procuring imported coal from domestic coal traders, based on requirement and availability. ASPL's coal trading operation has been initiated mainly to fulfil the Group companies'

requirement of imported non-coking coal in a centralised manner. In addition, the company is also selling imported coal to external buyers. A significant portion of the Group companies' coal requirement is being met by ASPL. Importing coal through a single entity results in lesser operational hassles and better negotiation power against suppliers.

RIPL is the flagship company of the Chhattisgarh-based Real Group. SIPPL is a wholly-owned subsidiary of RIPL, while around 95% equity shares of API is held by RIPL. RIPL holds around 19% share in ASPL, while ASPL has a shareholding of around 15% in RIPL. The Real Group has a total capacity to manufacture sponge iron of 3,60,000 tpa, mild steel billet of 6,48,400 tpa, TMT bar/wire rod of 7,45,250 tpa, steel wires of 2,45,250 tpa along with captive power plants of 45.5 MW. The Group is undertaking a greenfield capex under RIEPL, which is a wholly-owned subsidiary of RIPL.

Key financial indicators (audited)

ASPL	Standalone		Consolidated [^]	
	FY2023	FY2024	FY2023	FY2024
Operating income	396.1	146.9	3839.0	3484.8
PAT	3.5	4.2	250.7	259.2
OPBDIT/OI	1.9%	2.4%	10.0%	10.0%
PAT/OI	0.9%	2.9%	6.5%	7.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	0.2	0.2
Total debt/OPBDIT (times)	1.1	1.7	0.4	0.1
Interest coverage (times)	8.3	6.6	86.1	22.6

Source: Company, ICRA Research; [^] as per ICRA's estimates; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current (FY2025)		Chronology of rating history for the past 3 years				
			Oct 10, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based/ Non-fund based limit (LC/BG/SBLC/Buyers Credit/Cash Credit)	Long term/ Short term	30.00	[ICRA]AA-(Stable)/[ICRA]A1+	Jul 03, 2023	[ICRA]AA-(Stable)/[ICRA]A1+	Jun 16, 2022	[ICRA]AA-(Stable)/[ICRA]A1+	Feb 14, 2022	[ICRA]AA-(Stable)/[ICRA]A1+
				Apr 06, 2023	[ICRA]AA-(Stable)/[ICRA]A1+				
Non-fund based limit (LC/SBLC)	Short term	30.00	[ICRA]A1+	Jul 03, 2023	[ICRA]A1+	Jun 16, 2022	[ICRA]A1+	Feb 14, 2022	[ICRA]A1+
				Apr 06, 2023	[ICRA]A1+				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term / Short term –Fund based/ Non-fund based limit (LC/BG/SBLC/Buyers Credit/Cash Credit)	Simple
Short term –Non-fund based limit (LC/SBLC)	Very simple

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/ non-fund based limit (LC/BG/SBLC/Buyers Credit/Cash Credit)	-	-	-	30.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Non-fund-based limit (LC/SBLC)	-	-	-	30.00	[ICRA]A1+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	ASPL Ownership	Consolidation Approach
API Ispat and Powertech Private Limited	-	Full Consolidation
Shivalay Ispat and Power Private Limited	-	Full Consolidation
Ajay Steels Private Limited	-	Full Consolidation
Real Ispat and Energy Private Limited	-	Full Consolidation

Source: Company;

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