December 03, 2024

Ankur Udyog Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based/Term loan	312.83	280.69	[ICRA]BBB (Positive); reaffirmed
Long term - Fund based/Cash credit	165.00	165.00	[ICRA]BBB (Positive); reaffirmed
Short term - Non-fund based	2.00	3.10	[ICRA]A2; reaffirmed
Long term/Short term - Unallocated	0.17	31.21	[ICRA]BBB (Positive)/ [ICRA]A2; reaffirmed
Total	**480.00**	**480.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in the successful ramp-up of operations of the fully integrated steel unit of Ankur Udyog Limited (AUL), which helped increase the company's revenue and cash accruals in FY2024 and H1 FY2025. Its revenue surged 145% YoY to Rs. 1,373 crore in FY2024 and further to Rs. 682 crore in H1 FY2025. The company is expected to report full-year revenues in the range of Rs. 1,450-1,500 crore in FY2025. The credit profile of the company is expected to improve further in the upcoming fiscals, supported by steady volumetric growth owing to the optimal utilisation of its capacities and better margins on account of the absorption of overheads.

The ratings also consider the established track record of the company in the polyester spun yarn and steel businesses. ICRA notes that the company will be receiving a substantial amount of subsidy each year (estimated at Rs. 40-50 crore per annum) from the state government of Uttar Pradesh (UP) under the Accelerated industrial Investment Policy 2020 which will improve its overall profitability and liquidity. Hence, a timely receipt of the subsidy payments remains a critical monitorable for the ratings.

The ratings are, however, constrained by the highly fragmented and competitive polyester yarn and steel industries. The profitability in both the divisions is exposed to the volatility in key input raw material prices and also to the realisations of the finished products being sold. AUL's operating margins declined to 5.7% in FY2024 from 6.6% in FY2023, though the margins have slowly recovered in H1 FY2025 to 7.8%. The operating margins are expected to remain at 8-9% in FY2025. An improvement in the profitability remains critical to strengthen the financial profile of the company.

ICRA also notes that AUL's leverage increased and its coverage metrics moderated in FY2023 and FY2024 owing to the sizeable debt-funded capex incurred by the company in the past. However, the coverage and leverage metrics are expected to start improving from FY2026 onwards, with a healthy ramp-up of operations, payment of subsidy and scheduled repayment of the term loans. Lastly, ICRA notes that the company's liquidity position could be under pressure if the working capital requirements increase as the sanctioned working capital facilities remain almost fully utilised and AUL's cash balances are minimal.

The Positive outlook on the long-term rating reflects ICRA's opinion that a steady increase in profits from the steel division, coupled with the expected receipt of subsidy from the Uttar Pradesh government and the scheduled repayment of the existing debt will help improve the financial risk profile of the company.

Key rating drivers and their description

Credit strengths

Significant improvement in revenues on account of successful commissioning of steel operations and achieving healthy capacity utilisation in quick-time – The company has an installed capacity of 212,500 metric tonnes (MT) for sponge iron, 300,300 MT for billets and 291,300 MT for thermo mechanically treated (TMT) bars which commenced its operations in December 2022. The operations of the unit are fully stabilised and have ramped up optimally as the plant is running at a healthy capacity utilisation level of 80-90% for sponge iron and billets, and 70-75% for TMT bars. With this, the company reported a healthy revenue growth of 145% at Rs. 1,372.5 crore in FY2024 against Rs. 560.4 crore in FY2023. Further, in the current fiscal, in H1 FY2025, the company reported a turnover of Rs. 681.5 crore. Based on this trend, the company is expected to report a turnover of Rs. 1,450-1,500 crore for the full year FY2025.

Established track record of promoters in man-made yarn spinning and experience in steel industry– Incorporated in 1996, the company is involved in manufacturing polyester yarn and polyester viscose yarn. The company benefits from the extensive experience of its promoters in the sector, which together with the company's established track record of operations, helps it in attracting repeat orders from its customers. Besides, the promoters have previous experience in the steel industry, which aided them in ramping up the steel division. Under the steel division, the company reported healthy revenues of Rs. 1,166.7 crore in FY2024 and Rs. 569.5 crore H1 FY2025.

Steadily increasing earnings from steel business, supported by cost-efficient operations; attractive capital subsidy scheme to support debt coverage and business return indicators over the near to medium term – AUL's performance remained comfortable, driven by a steady increase in earnings from the steel business and no additional major debt-funded capital expenditure being incurred. Given this, there has been a continuous uptrend in the company's EBITDA/tonne for its steel business, improving to Rs. 3,312 per MT in H1 FY2025 from Rs. 1,892 per MT in FY2023.

Further, the project is eligible for various benefits under the Accelerated industrial Investment Policy 2020 (AIIP-2020) of the Government of Uttar Pradesh, like 70% SGST refund for 15 years, 5% interest subsidy up to Rs. 0.50 crore per year for 5 years and electricity duty exemption for 10 years. With this, the annual incentive amount is expected to be Rs. 40-50 crore on an annual basis, the full impact of which would start to flow in from FY2026. Therefore, the operating margins are expected to improve to more than 10% FY2026 onwards. ICRA expects the coverage and leverage metrics to also start improving from FY2026, with a sustained profit generation from its steel business, subsidy payments from the state government and scheduled repayment of the term loans.

Credit challenges

Limited liquidity headroom; efficient working capital management, along with timely subsidy receipts remains critical from the liquidity perspective – The liquidity of the company remained under pressure in FY2024 as it was the first year of ramp-up of the steel operations. This has led to elevated utilisation of its working capital limits and limited the free cash balances in the past. However, it is expected that at the prevailing steady state optimal plant operations, any additional liquidity requirement for working capital would be minimal in FY2025 as the company has been able to tightly manage its working capital cycle till H1 FY2025 with a net working capital intensity of ~16%. Liquidity relief is also expected from the second half of the current fiscal once the state government subsidy payments begin. Therefore, a continued efficient management of its working capital requirements, sufficient buffer in its working capital limits and timely subsidy payments remain critical for further scaling up its operations.

Moderate leverage and coverage ratios because of debt-funded capex – AUL was sanctioned a total term loan of Rs. 323 crore for its sizeable greenfield capital expenditure to set up an integrated steel plant, along with a captive power plant. This moderated the capitalisation and coverage indicators. The company's gearing increased to 1.6 times as on March 31, 2024, from 0.4 times as on March 31, 2021, and the total debt/ OPBDITA rose to 5.9 times in FY2024 from 2.7 times in FY2021. The coverage indicators are modest with an interest coverage ratio of 3.2 times and debt coverage ratio of 1.4 times for FY2024, though weakened from the previous years. Therefore, a steady profit generation, timely receipt of the subsidy payments and the scheduled repayment of term loans will be critical to improve the financial risk profile of the company. In ICRA's base-case estimates, the leverage (measured by total debt/OPBITDA) and coverage (measured by interest cover) indicators are expected to improve to 2.3 times and 4.3 times, respectively, in FY2026 once the entire subsidy benefits start flowing to the profit and loss account.

Vulnerability to movement in raw material prices in textile and steel divisions – AUL derives most of its revenues from the sales and manufacturing of polyester spun yarn. The man-made yarn industry is intensely competitive owing to the commoditised nature of products and the fragmented nature of the industry, which puts pressure on the company's profitability metrics. Owing to the pressure on the textile industry, the operating margins under the textile division declined to 6.3% in FY2024 and 8.2% in H1 FY2025 from 10.8% in FY2023. However, under the steel division, the operating margins slightly improved to 5.6% in FY2024 from 4.0% in FY2023 (the first year of operations). On an overall basis, the margins decreased to 5.7% in FY2024 from 6.6% in FY2023. In the current year, the operating margins have improved to 7.2% in H1 FY2025 despite remaining on the lower side. Further, the company depends on external sources to meet the raw material requirements of its steel unit. This would expose the profitability of the steel division to the volatility in raw material prices such as iron ore, coal and ferro alloy.

Liquidity position: Adequate

AUL's liquidity position is likely to remain adequate, backed by expectations of continued earnings growth from the steel business, an efficient working capital management, and hopes of a timely release of subsidy receipts. The company is expected to generate cash flow from operations of Rs. 90-100 crore in FY2025 against which the total debt repayment obligations are about Rs. 80 crore during the period. Additionally, as on October 31, 2024, the company had a liquidity cushion of about Rs. 21 crore in its fund-based working capital limits (equivalent to ~12% of its sanctioned limits). It also had cash balances of ~Rs. 4 crore as on September 30, 2024. ICRA, therefore, expects the company's liquidity to improve further in FY2026 as the downstream steel operations scale up further, and the subsidy payments commence in full swing, leading to a more comfortable cushion for servicing the debt repayment obligations compared to FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade AUL's ratings if it is able to report a sustained growth in its scale of operations while registering an improved operating margin, maintaining a comfortable liquidity position and establishing a timely track record of subsidy payments from the UP government.

Negative factors – The outlook could be revised to Stable if the company is unable to improve its liquidity position, or if the profitability declines, or if the working capital intensity increases on a sustained basis. Specific metrics for downgrade include a DSCR of less than 1.4 times on a sustained basis and/or there are delays in the receipt of subsidy payments from the UP government.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles – Spinning Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company

About the company

Incorporated in 1996, Ankur Udyog Limited (AUL) is promoted by Mr. Ashok Jalan and his family. AUL manufactures 100% polyester and viscose-polyester blended yarn (15-30 counts) at its plant in Gorakhpur, Uttar Pradesh. The company has a capacity to manufacture 17,625MT of yarn, with 65,664 spindles installed. It derives most of its revenues from Ludhiana, Punjab, which is known as the knitting hub of northern India. The company has set up a fully integrated greenfield steel plant with a capacity of manufacturing 3.003 lakh tonnes per annum of mild steel billet bars and 2.913 lakh tonnes per annum of TMT bars through the directly reduced iron route, along with a 30-megawatt (MW) captive power plant in Gorakhpur, at a project cost of Rs. 542 crore. The company has successfully commissioned its steel unit, and the commercial production started fully in December 2022.

Key financial indicators (audited)- Standalone

	FY2023	FY2024	H1FY2025*
Operating income	560.4	1,372.5	681.5
PAT	22.6	21.3	20.7
OPBDIT/OI	6.6%	5.7%	7.2%
PAT/OI	4.0%	1.6%	3.0%
Total outside liabilities/Tangible net worth (times)	1.9	1.7	1.5
Total debt/OPBDIT (times)	11.6	5.9	4.2
Interest coverage (times)	3.2	1.9	2.6

*Source: Company, ICRA Research; * Provisional numbers; 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	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Dec 03, 2024	Dec 14, 2023	Dec 27, 2022	Sep 13, 2021
1	**Term loans**	Long term	280.69	**[ICRA]BBB (Positive)**	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Cash credit**	Long term	165.00	**[ICRA]BBB (Positive)**	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	**Non-Fund based**	Short term	3.10	**[ICRA]A2**	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	**Unallocated**	Long term and short term	31.21	**[ICRA]BBB (Positive) /[ICRA]A2**	[ICRA]BBB (Positive)/[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash credit	Simple
Short term - Non-fund based	Very Simple
Long term/Short term – Unallocated	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 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	Term loan	FY2020	9.55%-9.77%	June 2031	280.69	[ICRA]BBB (Positive)
NA	Cash credit	-	-	-	165.00	[ICRA]BBB (Positive)
NA	Non-fund based	-	-	-	3.10	[ICRA]A2
NA	Unallocated	-	-	-	31.21	[ICRA]BBB (Positive)/[ICRA]A2

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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