

February 05, 2025

Aarti Steels Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	300.00	300.00	[ICRA]A (Stable); reaffirmed
Long-term Fund-based – Term loan	185.46	185.46	[ICRA]A (Stable); reaffirmed
Short-term Non-fund based	145.39	145.39	[ICRA]A2+; reaffirmed
Total	630.85	630.85	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of Aarti Steels Limited (ASL). Previously, ICRA had considered the line-by-line consolidated financials of ASL with its associate entity, Aarti Green Tech Limited (AGTL) as ASL had provided a corporate guarantee to the lender of AGTL. However, with the discontinuation of corporate guarantee and with expectation of no support required going forward, ICRA has changed the rating approach to consolidated financials of ASL, wherein AGTL has been consolidated on an equity method basis.

The reaffirmation of the ratings of ASL continues to consider the long track record of the Aarti Group in the steel business as well as the presence in the manufacturing of specialised downstream products such as rolled carbon and alloy steel, commanding better realisation along with a vertically integrated nature of operation and availability of power at a cheap rate from the captive power plants that supports the overall operating margin of the entity. The ratings also factor in ASL's status as an approved supplier of steel products to the ancillaries of major original automobile equipment manufacturers (OEMs) and repeat business generated from the clients over the years, which reduces counterparty risk and provides revenue visibility. In FY2024, the financial performance was impacted owing to lower sales volume of rolled products along with decline in realisations, which impacted the earnings of the entity to an extent. The coverage indicators were also impacted and remained moderate with interest coverage at 3.5 times in FY2024 compared to 4.0 times in FY2023. In the current fiscal, however, the performance is likely to improve with growth in sales volumes of rounds and bars, resulting in better product-mix and supporting the overall operating margin and debt coverage indicators of the entity. The interest coverage is expected to improve to >4.0 times in FY2025. In addition, with scheduled repayment of term debt along with reduction in unsecured loan is further expected to improve the leverage (total debt/OPBDITA) ratio of the entity in FY2025. In H1 FY2025, the company has already reported an operating income of Rs. 809 crore and OPM of 9.47 % on a standalone basis.

The ratings, however, are constrained by the company's exposure to the cyclical nature in the automobile sector from which ASL mainly derives its revenues, and the inherent risks of price fluctuations and cyclical nature in the steel industry. Sharp changes in input prices in the past have impacted the earnings of the entity. In the current fiscal, the realisation remains muted owing to overall decline at the industry level, which also constrains any significant improvement in the margins. ICRA also notes ASL's highly working capital-intensive nature of operations with significant receivables and stocking requirements and limited creditors, which impacts its liquidity to an extent. However, sizeable undrawn limits of ~Rs. 132 crore as of October 2024 provides comfort.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's business profile will remain comfortable, aided by healthy demand from its clientele. Improved earnings and debt reduction with scheduled repayment are also likely to keep the credit metrics comfortable, going forward.

Key rating drivers and their description

Credit strengths

Long operational track record and experience of promoters in the steel business – The Aarti Group has been involved in steel manufacturing for more than four decades since commissioning of the plant in Ludhiana (currently under ASIL) in 1979. Such a long operational track record of the Group and the promoter's experience in steel business lend operational strength to ASL.

Established association with reputed players in automotive industry and track record of repeat business – The company's plant in Cuttack, ASL is approved by major automobile OEMs in the eastern, western and southern India for supplying rolled steel products. The company supplies rolled carbon and alloy steel products, which are used in critical automobile parts like engines, axels etc. and in two-wheeler components. The entity's established association with reputed clients and product quality have led to repeat business over the years.

Value-added products and vertically integrated operation with presence of captive power plants likely to support earnings – The rolled products manufactured by ASL are made of carbon and alloy steels, which are relatively value-added items used in automobile parts. The value-added products keep the average realisations healthy. A portion of the sponge iron produced by the company is internally consumed for production of ingots/billets, and the billets are almost entirely consumed internally to produce rolled products. ASL is involved in conversion of chrome ore into ferro chrome for Tata Steel Limited (TSL), which is highly power intensive. However, presence of captive power plants (out of which ~25% is based on waste heat recovery technology), which ensures availability of power at a cheap rate, and favourable realisation keep the contribution for ferro chrome conversion at a healthy level, supporting ASL's profitability. The vertically integrated nature of operation and presence of captive power plants provide cost advantage over non-integrated players and are likely to support ASL's earnings, notwithstanding the volatility in its margins witnessed in the past due to fluctuations of input costs.

Credit challenges

Moderate coverage indicators in FY2024; however, likely to improve in FY2025 and FY2026 – ASL's earnings witnessed moderation in the last fiscal driven by lower sales volume of rolled products along with decline in realisations. The coverage indicators were also impacted and remained moderate with interest coverage at 3.5 times in FY2024 compared to 4.0 times in FY2023. In the current fiscal, however, the performance is likely to improve with growth in sales volumes of rounds and bars, resulting in better product-mix and supporting the overall operating margin and debt coverage indicators of the entity. The interest coverage is expected to improve to >4.0 times in FY2025. In addition, with scheduled repayment of term debt along with reduction in unsecured loan is further expected to improve the leverage (total debt/OPBDITA) ratio of the entity in FY2025.

High working capital intensity of operations – The company has high receivables and stocking requirements, and its creditors remain limited. Hence, ASL's working capital intensity of operations remained high, as reflected by the net working capital relative to the operating income of ~35% over the last two fiscals. Consequently, its incremental working capital requirement to scale up operations would remain high. Nevertheless, the company has a significant cushion in its working capital utilisation with undrawn limits of ~Rs. 132 crore as of October 2024, which provides comfort.

Exposed to cyclicity in the automobile sector, the key contributor to ASL's revenues – ASL derives the major portion of its revenue from automobile ancillaries. Hence, the company remains exposed to the cyclicity associated with the automobile sector, as reflected by the volatility in its revenue in the past years. Nevertheless, the presence of ferro chrome conversion operation, sales of excess sponge iron and power reduce the product concentration risks to an extent.

Vulnerable to price fluctuation risks and cyclicity inherent in the steel industry – The company requires iron ore and coal as the main raw materials for sponge iron production. Coal is also required for power generation. In addition, the company requires scrap, pig iron, ferro alloys and other metals used to manufacture ingots/billets. The volatility in the raw material prices and cyclicity inherent in the steel industry may impact the company’s profits and cash accruals.

Liquidity position: Adequate

ASL’s liquidity profile remains adequate. ASL’s cash flow is expected to improve in the current fiscal, driven by a better product mix, lower logistic costs and a sizeable order book in pipeline. The entity has repayment obligations towards ongoing term debts, however, healthy cash flow from operations and sizeable undrawn limits (the same stood at ~Rs. 132 crore as on October 2024) are likely to keep the liquidity position adequate.

Rating sensitivities

Positive triggers – A healthy growth in the company’s earnings resulting in strengthening of its debt protection metrics and liquidity position on a sustained basis may result in an upgrade of the ratings.

Negative triggers – The ratings may be downgraded if a sustained decline in the company’s revenues or profitability adversely impacts its debt protection metrics and liquidity. The specific credit metrics, which may trigger a rating downgrade, include consolidated interest coverage below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron and Steel
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASL with entities enlisted in Annexure-II

About the company

Incorporated in 1979, Aarti Steels Limited (ASL) is a part of the Aarti Group, promoted by the Ludhiana-based Mittal family led by Mr. Shiva Prasad Mittal. ASL is a vertically integrated manufacturer of carbon and alloy steel, mainly for the automobile sector. Erstwhile ASL had two plants in Cuttack, Odisha and Ludhiana, Punjab. However, its plant in Ludhiana has been demerged to Aarti Steel International Limited (ASIL; rated at [ICRA]A+ (Stable)/[ICRA]A1), and the Cuttack plant remains with ASL, after restructuring in the Group.

The Cuttack plant has the capacity to manufacture sponge iron of 320,000 tonnes per annum (TPA), ingots/billets of 120,000 TPA, rolled products of 200,000 TPA along with ferro alloys manufacturing capacity of 36 MVA and captive power plants of 90 MW. The ferro alloys manufacturing facility is used to carry out conversion of ferro chrome for Tata Steel Limited.

Key financial indicators (audited)

ASL	Standalone		Consolidated	
	FY2023	FY2024	FY2023	FY2024
Operating income	1,681.6	1,532.5	1,681.6	1,532.5
PAT	25.1	19.8	25.1	19.8
OPBDIT/OI	7.0%	6.9%	7.0%	6.9%
PAT/OI	1.5%	1.3%	1.5%	1.3%

Total outside liabilities/Tangible net worth (times)	1.0	0.8	1.0	0.8
Total debt/OPBDIT (times)	4.0	4.1	4.0	4.1
Interest coverage (times)	4.0	3.5	4.0	3.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		
			Feb 05, 2025	Nov 06, 2023*	Mar 27, 2023	May 12, 2022	Feb 14, 2022	May 10, 2021	
1 Cash credit	Long term	300.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2 Term loan	Long term	185.46	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3 Non-fund based limit	Short term	145.39	[ICRA]A2+	[ICRA]A2+	[ICRA]A1&	[ICRA]A1	[ICRA]A1	[ICRA]A1	
4 Working capital demand loan	Short term	-	-	-	-	[ICRA]A1	-	-	
5 Unallocated	Long term/ Short term	-	-	-	[ICRA]A+& / [ICRA]A1&	-	-	-	
6 Unallocated	Long term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	

&: Rating Watch with Developing Implications; *Ratings removed from Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Fund-based – Term loan	Simple
Short-term Non-fund based	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	Cash Credit	NA	NA	NA	300.00	[ICRA]A (Stable)
NA	Term Loan-I	26-Mar-21	NA	30-Apr-25	13.31	[ICRA]A (Stable)
NA	Term Loan-II	31-Mar-22	NA	31-Mar-28	12.70	[ICRA]A (Stable)
NA	Term Loan-III	27-Jun-17	NA	30-Sep-29	38.00	[ICRA]A (Stable)
NA	Term Loan-IV	31-Mar-21	NA	31-Mar-26	8.65	[ICRA]A (Stable)
NA	Term Loan-V	31-Mar-22	NA	28-Feb-27	7.08	[ICRA]A (Stable)
NA	Term Loan-VI	1-Feb-18	NA	28-Feb-26	40.72	[ICRA]A (Stable)
NA	Term Loan-VII	7-Jun-22	NA	31-Mar-29	45.00	[ICRA]A (Stable)
NA	Term Loan-VIII	7-May-21	NA	31-Mar-26	20.00	[ICRA]A (Stable)
NA	Non-fund based facilities	NA	NA	NA	145.39	[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

Company Name	ASL Ownership	Consolidation Approach
Aarti Green Tech Limited (AGTL)	25.96%	Equity Method
Aarti Forge Limited	99.94%	Equity Method

Source: ASL

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