Rating Rationale **10 May 2021**

A One Steel & Alloys Pvt Ltd

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities amounting to Rs. 172.90 Crs of A One Steel & Alloys Pvt Ltd ('ASAPL' or 'The Company')

Facility**	Previous Amount Rated (Rs. Crs)	Present Amount Rated (Rs. Crs)	Tenure	Previous Ratings (Jun, 2020)	Ratings Assigned*
Fund based	124.67	**142.40**	**Long Term**	BWR BBB Stable	**BWR BBB+ Stable Upgrade**
Non Fund Based	30.50	**30.50**	**Short Term**	BWR A3+	**BWR A2 Upgrade**
Total	155.17	**172.90**	**Rupees One Hundred Seventy Two Crores & Ninety Lakhs Only**		

** Details of facilities given in Annexure I.
*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating Action/Outlook:
Brickwork Ratings (BWR) has upgraded the long-term rating to BWR BBB+ (Stable) and short-term rating to BWR A2 for the bank loan facilities of A One Steel & Alloys Pvt Ltd (ASAPL or the company).

The rating upgraded factors in the significant improvement in business and financial risk profile of the company. Business profile has improved via increase in capacity of value added products (MS Pipes) which has led to increasing revenue contribution from MS Pipes to 30.31% in FY21 (Provisional) from 16.13% in FY20 and hence higher EBITDA in FY21 (provisional). Financial risk profile has improved led by Rs. 27.52 crs equity infusion which has improved the capital structure and credit ratios (net debt to EBITDA in FY21 (provisional) 1.55x FY20: 3.82x). The rating continues to derive comfort from the company's experienced promoters, diversified product portfolio with a wide distribution network spread across multiple states. However, these strengths are partially offset by the working capital intensive nature of operations, susceptibility to cyclicality and fluctuation in raw material prices and inherent risk of the industry along with intense competition.

The outlook remains Stable backed by positive demand and margin outlook for the steel industry.
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BWR has principally relied upon the standalone audited financial results of ASAPL upto 31st March 2020, FY21 management certified provisionals and projected financials for FY22 and FY23 and publicly available information/ clarifications provided by the company's management.

Credit Strengths

- **Substantial improvement in debt protection metrics and financial risk profile** :
  Debt coverage indicators, the interest service coverage ratio (ISCR) and debt service coverage ratio (DSCR), improved to 4.87x and 2.26x, respectively, in FY21 (provisional) from 2.65x and 1.72x, respectively, in FY20. The analysed gearing improved to 1.00x in FY21 (provisional) from 1.69x in FY20. TNW (Analysed) improved to Rs 133.97 crs in FY21 (Provisional) from Rs.77.84 crs in FY20 due to infusion of equity by the promoters of the company. The total operating income (TOI) improved by ~20.25% to Rs. 1,486.08 Crs in FY21 (provisional) from Rs. 1,235.84 Crs in FY20.

- **Established track record of operations and experienced management:**
  The company commenced its operations in 2013 and has a successful track record of more than eight years in the existing line of business. ASAPL's long track record and the extensive experience of promoters have helped establish relations with various stakeholders for its business. The company was established and is managed by the Jalan family, holding 100% equity stake in ASAPL as of March 31, 2021. Furthermore, the promoters are assisted by a team of experienced professionals in managing the company's daily business operations.

- **Diversified product portfolio and geographical presence:**
  The company manufactures & sells Mild steel (MS) billets (18%) and Thermo mechanically treated (TMT) bars (27%), MS Pipes (30.31%). The products manufactured by the company find end use in infrastructure & real estate industries. The company sells their products Pipes & TMT under the brand name of "A One Gold". The company's strong distributorship emanates from a strong network of 700 registered dealers & distribution network. The company sells its products in Karnataka ,Tamil Nadu, Andhra Pradesh, Hyderabad, Dubai, Singapore & UK.

- **Improved profitability margins:**
  The operating profit margins (OPM) and net profit margins (NPM) improved to 4.71% and 2.66% respectively, in FY21 (provisional) from 2.77% and 1.09%, respectively, in FY20. The profitability margins have improved due to increased TOI and better margins from MS pipes. The company expects to sustain these margins in coming years because their products find end use in sectors like infrastructure, real estate etc which will grow in future.

Credit weaknesses

- **Working Capital intensive nature of operations**: The operations of ASAPL remained working capital intensive supported largely by the bank borrowings. The average utilisation of fund based working capital limits of the company stood high around 88% during the last 12 months ending 30th April 2021.

- **Susceptibility to cyclicality and fluctuation in raw material prices:** The profitability is vulnerable to fluctuations in the prices of raw materials as the latter constitutes ~80% of the company's operating expenses. Further the performance of the company is linked to the steel industry, with cyclical changes in demand and price volatility. The demand for steel products depends on the growth of primary end user segments such as infrastructure and real estate etc. Any slowdown may in turn adversely affect the demand for steel products over the medium term. However in order to mitigate the risk of raw material prices volatility it buys raw materials in bulk when prices are low.

- **Intense competition in the industry:** The steel industry is highly fragmented with the presence of both organized and unorganized players in the downstream segment providing similar products/services. Hence, the company faces competition from regional players leading to intense competition and pricing pressures, which in turn affect the profitability margins of the company.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). BWR has analysed ASAPL's on standalone basis to arrive at the rating.

RATING SENSITIVITIES

Upward: BWR may revise the ratings upward in the case of a sustained and substantial improvement in the scale of operations, alongwith sustenance of current credit metrics.

Downward: BWR may revise the rating downward in the case of a reduction in the EBITDA margins, and/or deterioration in debt protection metrics (ISCR below 3x).

Liquidity Position (Adequate)

The company has an adequate liquidity position. There are only long term secured borrowings from banks amounting to Rs. 48.53 Crs as on 31st March 2021. Against a CPLTD (current portion of long term debt) of Rs 11.69 Crs in FY21, the company had a cash accruals of Rs. 44.53 Crs in FY21. The company projected to generate cash accruals of Rs. 58.62 Crs in FY22 against a CPLTD of Rs 11.67 Crs, thereby indicating an adequate liquidity position. Free cash balance stood at Rs 15.70 crs in FY21.

About the entity:

A-One Steel and Alloys Pvt Ltd (ASAPL) was incorporated in April 2012 by Mr. Sunil Kumar Jalan and Mr. Sandeep Kumar Jalan in Bangalore. It commenced commercial operations in June 2013. It is engaged in the manufacturing of Mild steel (MS) billets and Thermo mechanically treated (TMT) bars, MS Pipes. It is also involved in trading of Coal & Scap sale. It has two manufacturing facilities one at Gauribidanur, Karnataka with an installed capacity of 96,000 metric tonnes per annum (MTPA) to manufacture TMT bars and capacity of 1,99,000 MTPA to manufacture MS billets. The other manufacturing unit is located in Bellary, Karnataka with an installed capacity of 1,20,000 MTPA to manufacture MS Pipes. The trading of Coal & scrap sale is done in Bellary, Karnataka. The company sells their products Pipes & TMT under the brand name of “A One Gold”. It has its own captive power generation plant of 22 MW. It is an ISO certified company. It has one 100% owned subsidiary ,Vanya Steels Pvt Ltd which is engaged in manufacturing of sponge iron.

Key Financial Indicators (Standalone)

Key Financials			
Result Type	**Units**	**31/Mar/2019 Audited**	**31/Mar/2020 Audited**
Total Operating Income	Rs. Crs	1066.86	1235.84
OPBDIT	Rs. Crs	32.30	34.19
PAT	Rs. Crs	15.31	13.53
Tangible Net Worth (Analysed)	Rs. Crs	67.86	77.84
Total Debt/TNW (Analysed)	Times	1.35	1.69
Current Ratio	Times	1.06	1.09

Key covenants of the instrument/facility rated: Not Applicable

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

S.No	Facility	Current Rating (2021)				Rating History		
		Type	Tenure	Amount (In Crs)	Rating	02 Jun 2020	2019	2018
1	Bank Loan	Fund Based	Long Term	142.40	BWR BBB+ Stable Upgrade	BWR BBB Stable	-	-
		Non Fund Based	Short Term	30.50	BWR A2 Upgrade	BWR A3+	-	-
Total				172.90	Rupees One Hundred Seventy Two Crores & Ninety Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

Simple.For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria - Manufacturing Sector Entities**
- **Short Term Debt**

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A-One Steel and Alloys Pvt Ltd

ANNEXURE I
Details of Bank Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	CC	85.00	-	85.00
	Term Loan-I	4.56	-	4.56
	Term Loan-II	8.53	-	8.53
	Term Loan-III	19.61	-	19.61
	GECL Term Loan-IV	24.70	-	24.70
	ILC	-	27.00	27.00
	BG	-	0.50	0.50
	Forward Limits	-	3.00	3.00
TOTAL				**172.90**

Total: Rupees One Hundred Seventy Two Crores & Ninety Lakhs Only

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