



Rating Rationale

A One Steel & Alloys Pvt Ltd

02 June 2020

Brickwork Ratings assigns the ratings for the Bank Loan Facilities amounting to ₹ 155.17 Cr of A One Steel & Alloys Pvt Ltd ('ASAPL' or 'The Company')

Facility**	Present Amount Rated (₹ Crs)	Tenure	Present Ratings*
Fund Based	124.67	Long Term	BWR BBB Stable
Non-fund Based	30.50	Short Term	BWR A3+
Total	155.17	INR One Hundred Fifty Five Crores & Seventeen Lakhs Only	

** Details of facilities given in Annexure I.

*Please refer to www.brickworkratings.com for definition of the Ratings

Rating Action/Outlook:

BWR has assigned a long term rating of BWR BBB (Stable) and Short term rating of A3+.

The rating factors in the experience of the promoters along with the company's established market position for more than a decade, diversified product portfolio & geographical presence, established relationship with customers & suppliers, moderate capital structure & debt protection metrics during FY19 and FY20 (Prov).

However, the rating is constrained by thin profitability margins, susceptibility of profitability to volatility in raw material prices, working capital intensive nature of operations & intense competition from organised & unorganised players.

The outlook is stable as the company has been able to sustain the revenues from business operations in FY20 (Prov).

Going forward, the company's ability to improve its scale of operations and profitability alongwith credit metrics & liquidity position will be the key rating sensitivities

BWR has principally relied upon the audited financial results of ASAPL upto 31st March 2019, FY20 provisionals and projected financials FY21, FY22 & publicly available information & information/clarifications provided by the company's management.

Key Rating Strengths

- **Extensive experience of management & Established track record** - The company has a track record of more than 8 years having commenced its operations in 2012. The promoters have extensive experience and an established track record in the steel business. This has helped the company establish healthy relationships with a stable customer base leading to repeat orders. The company also enjoys long term relationships with suppliers and hence is able to ensure stable supply of raw materials, which has helped the company maintain healthy capacity utilisation levels. Further they are assisted by a team of experienced professionals.
- **Diversified Product Portfolio & Geographical Presence**– The company manufactures & sells Mild steel (MS) billets and Thermo mechanically treated (TMT) bars, MS Pipes. 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 sells its products in Karnataka ,Tamil Nadu, Andhra Pradesh, Hyderabad, Dubai, Singapore & UK.
- **Moderate capital structure debt coverage indicators & Increasing TOI:** ASAPL capital structure continued to remain moderate with gearing of 1.49 times in FY19. Debt coverage indicators (ISCR & DSCR) stood at 4.46 times & 2.49 times in FY19 but have deteriorated to 2.15 times & 1.48 times in FY20 (Prov) respectively but are at comfortable levels. TOI has increased by 15.88% to INR 1235.74 Crs in FY20 (Prov) from INR 1066.34 Crs in FY19.

Credit weaknesses

- **Thin & Declining profitability margins** : Operating profit margins improved to 2.97% in FY19 from 2.79% in FY18 on account of increase in topline. PAT margins also marginally declined to 1.44% in FY19 from 1.47% in FY18. However in FY20 (Prov) the operating margins declined to 2.34% & PAT margins declined to 0.75%. Margins are low due to stiff competition.
- **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 80% during the last 12 months.
- **Susceptibility to cyclical 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. Any slowdown may in turn adversely affect the demand for steel products over the medium term.
- **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 detailed below.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, in case of improved operating income & profitability margins, reduction in debt levels and strengthening the financial risk profile of the company.

Negative: BWR may revise the rating downward, in case reduction in profitability margins, increase in debt levels thereby impacting the credit profile of the company. Also if there is more than 5%-10% variation in the audited results of FY20 it may result in downgrade of rating

Liquidity Position (Adequate)

The company has an adequate liquidity position. There are long term borrowings from banks, inter corporate borrowings & Unsecured interest free loans from directors amounting to INR 66.69 Crs as on 31st March 2020. Against a CPLTD of INR 11.64 Crs in FY20, the company had a cash accruals of INR 14.46 Crs in FY20 and with a CPLTD of INR 9.00 Crs in FY21, the company projected to generate cash accruals of INR 14.20 Crs in FY21, thereby indicating a comfortable liquidity position for repayment of debt obligations. Utilization of working capital limits is around 80%

About ASAPL:

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 & Scrap sale. It has two manufacturing facilities one at Gauribidanur, Karnataka with an installed capacity of 85,000 tonnes per annum (TPA) to manufacture TMT bars and capacity of 1,70,000 TPA to manufacture MS billets. The other manufacturing unit is located in Bellary, Karnataka with an installed capacity of 60,000 tonnes per annum (TPA) 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 and has well supported rapid working systems for all of their Quality controls.

Key Financial Indicators (Standalone)

Key Financials			
Result Type	Units	31/Mar/2018	31/Mar/2019
		Audited	Audited
Total Operating Income	INR Crs	489.95	1066.34
OPBDIT	INR Crs	13.66	31.67
PAT	INR Crs	7.20	15.31
Tangible Net Worth (Analysed)	INR Crs	41.68	67.86
Debt/TNW (Analysed)	Times	1.29	1.49
Current Ratio	Times	1.14	1.06

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	Name of Instrument	Current Rating (2020)				Rating History		
		Type	Tenure	Amount (In Crs)	Rating	2019	2018	2017
1	Bank Loan	Fund Based	Long Term	124.67	BWR BBB Stable	NA	NA	NA
		Non Fund Based	Short Term	30.50	BWR A3+	NA	NA	NA
Total				155.17	INR One Hundred Fifty Five Crores & Seventeen Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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](#)

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A One Steel & Alloys Pvt Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	HDFC Bank	Cash Credit	85.00	-	85.00
		Term Loan-I	5.89	-	5.89
		Term Loan-II	10.65	-	10.65
		Term Loan-III	23.13	-	23.13
		Import/Inland LC	-	27.00	27.00
		BG	-	0.50	0.50
		Forward Limits	-	3.00	3.00
TOTAL					155.17

Total: INR One Hundred Fifty Five Crores & Seventeen Lakhs Only

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