

**Rating Rationale**

**29 June 2020**

**A One Steels India Pvt Ltd**

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities amounting to ₹ 25 Cr of A One Steels India Pvt Ltd ('ASIPL' or 'The Company')**

<b>Facility**</b>	<b>Amount Rated (₹ Crs)</b>	<b>Tenure</b>	<b>Ratings Assigned*</b>
<b>Fund Based</b>	20.00	Long Term	<b>BWR BBB-Stable</b>
<b>Non-fund Based</b>	5.00	Short Term	<b>BWR A3</b>
<b>Total</b>	<b>25.00</b>	<b>INR Twenty Five Crores Only</b>	

\*\* Details of facilities given in Annexure I.

\*Please refer to [www.brickworkratings.com](http://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, established relationship with customers & suppliers, comfortable gearing & debt protection metrics during FY19 and FY20 (Prov).

However, the rating is constrained by thin profitability margins, moderate scale of operations susceptibility of profitability to volatility in raw material prices & 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 ASIPL 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 10 years having commenced its operations in 2008. 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**– The company manufactures & sells Mild steel (MS) billets and Structural Items Like MS Channels, MS Angles, MS Rounds etc. The products manufactured by the company find end use in infrastructure industries. The company sells their Structural products under the brand name of “Jallan”. The company sells its products in Karnataka & Andhra Pradesh only.
- **Comfortable Gearing & coverage indicators:** ASIPL capital structure continued to remain comfortable with gearing of 0.56 times in FY19 & is at same level in FY20 (Prov). Debt coverage indicators (ISCR & DSCR) stood at 4.22 times & 3.47 times in FY19 and marginally improved in FY20 (Prov).

### **Credit weaknesses**

- **Thin profitability margins :** Operating profit margins declined to 3.31% in FY19 from 3.94% in FY18 on account of increase in Operating expenses. PAT margins also marginally declined to 1.22% in FY19 from 1.49% in FY18. However in FY20 (Prov) the Operating Profit & PAT marginally declined to INR9.61 Crs & INR 3.50 Crs respectively. Margins are low due to stiff competition.
- **Moderate Scale of Operations:** TOI has decreased by 9.49% to INR 267.28Crs in FY20 (Prov) from INR 295.31 Crs in FY19. Scale is expected to remain small because of the highly competitive and fragmented nature of the industry.
- **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 as a vehicle loan & Unsecured interest free loans from directors amounting to INR 9.00 Crs as on 31st March 2020. Against a CPLTD of INR 0.07 Crs in FY20, the company had a cash accruals of INR 6.04 Crs in FY20 and with a CPLTD of INR 0.07 Crs in FY21, the company projected to generate cash accruals of INR 6.34 Crs in FY21, thereby indicating a comfortable liquidity position for repayment of debt obligations. Utilization of working capital limits is around 75%-80%.

### About ASIPL:

ASIPL was incorporated in 2008 by Mr. Sunil Kumar Jalan and Mr. Sandeep Kumar Jalan in Bangalore. It is engaged in the manufacturing of Mild steel (MS) billets and Structural Items likes MS Channels, MS Angles, MS Rounds. It is also involved in trading of Coal & Scap sale. ASIPL has a manufacturing facility at Hindupur, Andhra Pradesh with an installed capacity of 50,000 tonnes per annum (TPA) to manufacture Structural Items and capacity of 60,000 TPA to manufacture MS billets. The Trading of scrap sale is done in Hindupur, Andhra Pradesh. The company sells their structural products under the brand name of “Jallan”. 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		Audited	Audited
Total Operating Income	INR Crs	243.16	295.31
OPBDIT	INR Crs	9.57	9.76
PAT	INR Crs	3.62	3.60
Tangible Net Worth (Analysed)	INR Crs	33.68	36.57
Debt/TNW (Analysed)	Times	0.63	0.56
Current Ratio	Times	1.27	1.25

**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	20.00	BWR BBB-Stable	NA	NA	NA
		Non Fund Based	Short Term	5.00	BWR A3	NA	NA	NA
Total				25.00	INR Twenty Five Crores Only			

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://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 Steels India 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	20.00	-	20.00
		LC	-	5.00	5.00
<b>TOTAL</b>					<b>25.00</b>

**Total: INR Twenty Five Crores Only**

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**About Brickwork Ratings** :Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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