

Rating Rationale

Brickwork Ratings Revises ratings to ‘BWR BBB-’ & ‘BWR A3’ from BWR BB+ & BWR A4+ for the Bank Loan Facilities amounting to ₹120 Cr (reduced from ₹126 Cr) to AGR Steel Strips Private Limited.

Brickwork Ratings has *revised* the **Ratings**¹ for the Bank Loan facilities amounting to ₹120.00 Cr of AGR Steel Strips Private Limited (‘ASSPL’ or ‘the Company’) as follows:

Facility*	Limits ₹ Cr		Tenure	Previous Rating Feb 2014	Present Rating Aug 2015
	Previous	Present			
Cash Credit	76.00	75.00	Long Term	BWR BB+ (Outlook: Stable)	BWR BBB- (BWR Triple B Minus) (Outlook: Stable) Upgraded
Letter of Credit	50.00	45.00	Short Term	BWR A4+	BWR A3 (BWR A Three) Upgraded
Bank Guarantee (Sublimit of LC)	-	(5.00)			
Total	126.00	120.00	INR One Hundred and Twenty Crores only		

*Details of facilities are shown in Annexure I

BWR has principally relied upon the audited financial results up to FY14, provisional financials of FY15, projected financials up to FY16, publicly available information and information/clarifications provided by the Company’s management.

The rating revision reflects the consistent improvement in revenue and profit of the company over the last three years. The rating continues to factor the promoter’s experience & long track record of the Group in the steel industry, consistent revenue growth and comfortable capital structure. However, the rating continues to be constrained by the moderate profit margins, competitive nature of industry and working capital intensive nature of operations.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Business Overview:

AGR Steel Strips Pvt Ltd. (ASSPL) was incorporated on October 20, 1992. It was acquired by the current promoters Mr. Ram Kumar Aggarwal, Mr. Pradeep Aggarwal and Mr. Vikas Aggarwal in 2000. The Company is engaged in manufacturing of Hot Rolled Pickled and Oiled (HRPO) and Cold Rolled Close Annealed (CRCA) steel strips /coils. The Company's registered office is located at New Delhi and manufacturing unit at Dharuhera, Haryana about 70 km from Delhi and has installed capacity to manufacture 60000 TPA of HRPO and 40000 TPA of CRCA. The capacity utilization level was around 88% in FY15.

ASSPL is part of the Haryana based Asian group of Companies. The group is one of the large steel manufacturers in Haryana and the group comprises of Asian Color Coated Ispat Limited (ACCIL) and Asian Ispat FZC (AIF) (incorporated in United Arab Emirates), ACCIL Auto Steel Pvt Ltd which are engaged in manufacturing Cold Roll Coils, Galvanized Cold Rolled Sheets and Colour Coated Sheets etc.

Management Profile

The Board of ASSPL comprises of Mr. Pradeep Aggarwal and Mr. Vikas Aggarwal, brothers, in the capacity of Directors. Both have extensive experience of over 20 years in the cold rolled steel strips manufacturing industry.

Financial Performance:

The Company has reported net profit of ₹11.55 Crores on net revenues of ₹476.39 Crores in FY14, as against net profit of ₹10.20 Crores on net revenue of ₹430.00 Crores in FY13. As of 31st March 2014, the Company's tangible net worth stood at ₹75.42 Crores. Gearing was comfortable at 1.60 times in FY14, as against 1.43 times in FY13. On a provisional basis, the Company has achieved net profit of ₹10.62 Crores on net revenue of around ₹ 486.36 Cr in FY15.

Auditors Comments in the Auditor's report for FY14

The Auditors of the company have made certain observations/comments in their Report on the Annual Accounts of ASSPL for FY14. For FY14, the Company has reported contingent liabilities of ₹3910 Cr relating to corporate guarantees extended to group companies Asian Colour Coated Ispat Ltd (ACCIL) (Rated BWR A (Stable) /A1 in Aug 2015) and Asian Ispat FZC (AIF). In the auditor's report of FY14, it is stated as follows: "Seeing the terms and conditions, quantum of guarantee and net worth of Company it appears to be prejudicial to the interest of the company.

The management of the company opine that ASSPL & ACCIL have common directors and ASSPL has been a shareholder of ACCIL right from inception (presently holds 7.3% stake). At the time of setting up of operations of ACCIL, ASSPL was already an established firm with stable and profitable operations. Hence, ASSPL had offered corporate guarantee to lenders of ACCIL as per the sanction terms.

There has been no instance of invocation of the said corporate guarantee till date. Both the companies have common management, crossholdings and intercompany transactions. The interests of both the Companies are aligned and it is expected that they would continue their business operations without defaulting on their debt obligations. As such, the management strongly believes that the said corporate guarantee extended to ACCIL is not prejudicial to the interests of the Company.

BWR has accepted the Management’s representations and not made any adjustments for their analysis.

Rating Sensitivities

The rating outlook is expected to be stable over the current year. The Company’s ability to sustain revenue growth, improve operational efficiency and profit margins, continuous monitoring the group companies’ performance to mitigate the off balance sheet exposure and effectively manage its working capital would be the key rating sensitivities. However, any enforcement of corporate guarantee extended to group concerns will have an adverse impact on the ratings of ASSPL.

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Annexures-I

Bank Loan Facilities

Name of the Bank	Name of Facility	Amount (₹ Crores)
Bank of Baroda	Fund Based: Cash Credit	60.00
	Non Fund Based: Letter of Credit	40.00
	Non Fund Based: Bank Guarantee (Sublimit of LC)	(5.00)
	Total (Fund + Non Fund)	100.00
South Indian Bank	Fund Based: Cash Credit	15.00
	Non Fund Based: Letter of Credit	5.00
	Total (Fund + Non Fund)	20.00
Total		120.00