



Rating Rationale

AR Ispat

19 May 2020

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 14.33 Crores of AR Ispat.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous** (Apr 2019)	Present
Fund based					
Cash Credit	8.00	8.00	Long Term	BWR BB- (Stable)	BWR BB (Stable) Upgradation)
Term Loan	7.00	6.33			
Total	15.00	14.33	INR Fourteen Crores and Thirty Three Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Complete details of Bank facilities is provided in Annexure-I

** The rating was migrated to Rating Not Reviewed category Apr 2020

RATING ACTION/ OUTLOOK

BWR has revised the AR Ispat to BWR BB /Stable.

The outlook is Stable on account of extensive experience of partners , moderate net worth, and strategic location of the unit in steel producing belts.

The rating continues to factor in the partner' experience in the same line of industry, moderate net worth , moderate revenue, moderate liquidity position and strategically located unit. However, the rating is constrained by a short track record of operation, , Low NPM , low order book, exposed to inherent cyclicity in the steel industry and exposed to negative impact of covid.

KEY RATING DRIVERS

BWR principally relied upon certified financials upto FY19 , provisional FY20 and projection upto FY23 and publicly available information and information / clarification provided by the management.



Credit Strengths:

- Extensive experience of the partners in the related field of Industry.
- Moderate level of partner's capital at Rs. 7.06 Crs and Unsecured loans of Rs. 8.61 Crs from friends and family which will be kept in the business for the medium term as per provisional basis in FY20.
- The firm reported the revenue of Rs. 109.63 Crs and PAT of Rs. 0.37 Crs on provisional basis in FY20.
- Liquidity stood moderate at current ratio 2.54x in FY20 and moderate OPM stood at 4.75% in FY20 on provisional basis.
- Moderate debt protection metrics as DSCR stood 2.86x in FY20 and ISCR stood at 4.44 x in FY20 on provisional basis.
- Unit is strategically located in one of the Steel producing belts in Raigarh (Chattisgarh) which results in lower logistic expenditure.

Credit Concerns:

- Short operational track record of the firm, since commercial operations commenced in June 2019.
- Low order book in hand outstanding of Rs. 4.15 Crores as on March 2020.
- Net profit margin stood at a modest level of 0.34% in FY 20 on provisional basis. Though it is expected to improve in FY21.
- Exposed to the cyclical nature inherent to the steel industry, which limits the pricing flexibility of the industry participants. Highly competitive and fragmented nature of the industry.
- The industry is exposed to the negative impact of COVID 19 & lockdown on all the business parameters in FY21.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has factored in the standalone business parameters and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked detailed below (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

Going forward, the ability of the entity to accelerate its scale of operations, increase its profit margins, compliance of bank's sanction terms, efficiently manage its working capital and cash flows for timely servicing of interest/debt obligations and strengthening of overall financial risk profile shall be the key rating sensitivities over short to medium term.

Positive: The rating outlook may be revised to positive or rating may be upgraded if the company is able to sustain its growth and profit margins. Any additional infusion of share's capital would help to improve its capital structure of the entity.

Negative: The rating outlook may be revised to negative or rating may be downgraded if the entity achieves lower revenue and profit margins than projected.

LIQUIDITY POSITION: Adequate

The cash and cash equivalents of AR Ispat stands at Rs 0.05 Cr in FY20. The current ratio of the firm stands at 2.54 x in FY20. The average utilisation of the working capital stood at 55% . Net Cash accrual stands at Rs. 4.25 Crs in FY20 , projected Rs. 2.41 Crs in FY21 and Debt repayment stands Rs. 1.08 Crs in FY20-21, Rs. 1.08 Crs in FY 21-22.

FIRM PROFILE

Incorporated in 2018 and based in Raigarh (Chhattisgarh), AR Ispat is a partnership firm managed by Mr. Rakesh Kumar Agarwal, and Mr. Anand Bansal. Firm is into manufacturing of Ms Billets, and has a capacity of 30000 mtpa. The commercial production of the company has started from 15th June 2019.

KEY FINANCIAL INDICATORS

Key Parameters		2019
Result Type	Units	Certified
Operating Revenue	₹ Cr	0.00
EBITDA	₹ Cr	(0.05)
PAT	₹ Cr	0.00
Partner's Capital	₹ Cr	4.80
Total Debt/Partner,s Capital	Times	1.91
Current Ratio	Times	0.00



On a Provisional basis : The firm reported Operating revenue reported Rs. 109.63 Crs , EBITDA Rs. 5.21 Crs , PAT Rs. 0.37 crs , Partners Capital Rs. 7.06 Crs and USL from friends and family of Rs.8.61 crs which will remain in business for medium term, total debt to Partners Capital 2.64x and current ratio 2.54x in FY20.

KEY COVENANTS OF THE FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:NA

RATING HISTORY FOR LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)

Facilities	Current Rating 2020			Rating History				
Bank Loan	Current Rating			3 Apr 2019			2018	2017
	FB	14.33	BWR BB Stable (Upgraded)	FB	15.00	BWR BB-Stable (Assigned)	NA	NA

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](#)
- [Manufacturing Companies](#)

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ANNEXURE I

AR Ispat

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.	Fund Based: Punjab National Bank	Cash Credit Term Loan	8.00 6.33	-	14.33
TOTAL					14.33

Rupees Fourteen Crores and Thirty Three Lakhs Only

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