

## Rating Rationale

**Brickwork Ratings assigns Long Term Rating at ‘BWR BB-’ (Double B Minus) (Outlook: Stable) and Short Term Rating at ‘BWR A4’ of Bank Loan Facilities of Adhunik Alloys & Power Ltd. (AAPL)**

Brickwork Ratings (BWR) has assigned following **Ratings**<sup>1</sup> for Bank Loan Facilities of Adhunik Alloys & Power Ltd. (‘AAPL’ or ‘the Company’).

Facility	Amount ( ₹Cr)	Tenure	Rating <sup>^</sup>
Term Loan (Fund Based)	442.14	Long Term	BWR BB- (Outlook: Stable) (BWR Double B Minus)
Working Capital (Fund Based)	149.00		
BG/LC (Non - Fund Based)	118.00	Short Term	BWR A4
<b>Total</b>	<b>709.14</b>	<b>INR Seven Hundred and Nine Crores and Fourteen Lacs Only</b>	

BWR has essentially relied upon the audited financial results of AAPL up to FY15 (12M), provisional financials for 9M FY16, projected financials and clarifications/information provided by the Company.

The rating has, *inter alia*, factored AAPL’s deteriorating operating and financial performance during FY15, including, low capacity utilization, substantial reduction in sales during FY15, losses, high working-capital requirement, weak debt & interest servicing capabilities represented by low coverage ratios and the risks associated with the current slowdown in the Steel sector. The rating has also taken note of promoters’ experience and ability to comply with the requirements stipulated by the Banks.

### Background:

AAPL, incorporated on 27<sup>th</sup> July, 2003, belongs to Adhunik group located at Kandra, Saraikela, Jamshedpur (Jharkhand) and promoted by Agarwal family. The company is engaged in production of Sponge Iron & Steel Billets supported by captive power plant of 30 MW and also has a private railway siding. The company had set up DRI Units (350 TPD x 2) for manufacturing of sponge iron in 2005. In the year 2007, the Company planned a project to further expand its facilities by backward & forward integration and set up captive power plant, Coal Washery, Steel Melting Shop (SMS) & private railway siding. The said expansion was completed in a phased manner by FY 2009-10. Total installed capacity of the plant includes capacity of 2,10,000 MTPA of Sponge Iron & 1,58,400 TPA of MS Billets. AAPL has also been

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

granted license by the Central Electricity Regulatory Commission, New Delhi, for inter-state trading of electricity for their surplus power.

The company had recorded low capacity utilization owing to disruption in supply of raw materials as iron ore & coal mining were affected by various statutory clearances in the State of Odisha and Jharkhand. The company was procuring iron ore from the various operational mines of Orissa Manganese & Minerals Ltd. as also from other various market sources. After the closure of the mines pursuant to the Order of Supreme Court in May 2014 till the re-opening of the mines in April 2015, the cost of iron ore increased substantially and adversely affected the cost of production of the company. During FY15, Capacity utilization of Sponge Iron (DRI) was at 52% and Steel Melting Shop (Billets) at 38% only.

### **Ownership & Management:**

Mr. Nirmal Kumar Agarwal is the Managing Director of AAPL. Mr. Jugal Kishore Agarwal, Mr. Ghanshyam Das Agarwal, Mr. Mahesh Kumar Agarwal and Mr. Manoj Kumar Agarwal are promoter directors and belong to the same family, and manage the day-to-day affairs of the Company with the help of experienced professionals in addition to their personal involvement.

Mahananda Suppliers Ltd., Sungrowth Share & Stock Ltd., Adhunik Tie-up Pvt. Ltd. and Adhunik Steels Ltd. holds equity share of 24.56%, 21.79%, 19.19% and 8.32% respectively in AAPL as of FY15 and rest is held by promoters.

### **Financial Performance:**

On a standalone basis, as per audited financials for FY15, the Company's operating revenue substantially reduced from ₹ 654.31 Crs in FY14 to ₹ 402.57 Crs in FY15. The Company had registered a loss of ₹ 18.40 Crs in FY15 as against profit of ₹ 11.01 Crs during FY14. As a consequence the tangible Net-worth also fell from ₹ 204.12 Cr in FY14 to ₹ 176.42 Cr in FY15. Total borrowings have increased from ₹ 555.02 Crs in FY14 to ₹ 579.45 Crs in FY15, though Long term borrowings reduced slightly from ₹ 356.47 Crs in FY14 to ₹ 349.49 Crs in FY15. AAPL has very high Payable and Inventory days. DE ratio increased from 2.72x in FY14 to 3.28x in FY15. Coverage Ratios are also on the lower side.

During 9M FY16, the promoters had infused ₹ 4.50 Crs as equity contribution and expected to bring in further funds in the next six months. As per provisional financial 9M FY16, the Company has achieved total revenues of ₹ 330 Crs with a profit of ₹ 4 Crs.

### **Outlook:**

AAPL is a part of Adhunik Group and promoted by Agarwal Family. It has a strategically located manufacturing unit in Jamshedpur (Jharkhand) for raw material supply of Iron ore, Coal etc. However performance of the Company was affected due to mining related issues. Presently the Company's financials are under stress and expected to improve up on availability of competitively priced Raw material from nearby area. It is also expected that the promoters will bring in required capital as stipulated by the banks to maintain its operational and financial

performance. Achieving projected revenues, operating performance with cost effectiveness, profitability and coming out of losses, reduction in gearing level by promoters bringing in required equity would be the key rating sensitivities.

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