Rating Rationale

Brickwork Ratings assigns 'BWR B' for Bank Loan Facilities amounting to ₹43.22 Cr of Agarwal Mittal Concast Pvt. Ltd (AMCPL)

Brickwork Ratings (BWR) has assigned the **Rating**[1] of 'BWR B' (Pronounced BWR B) with a stable outlook for the long term Bank Loan facilities of ₹43.22 Cr of Agarwal Mittal Concast Pvt. Ltd. ("AMCPL" or "the Company").

Facility	Limits (₹ Cr)	Tenure	*Rating*
Fund Based			
Mortgage Loan	**12.22**	**Long Term**	**BWR B Outlook:Stable**
Cash Credit	**31.00**		
Total	**43.22**	**(INR Forty Three Crore and Twenty Two Lakhs only)**	

BWR has principally relied upon the audited financial results of AMCPL up to FY 13, FY 14 Provisional and further projected financials, publicly available information and information/clarification provided by the Company management.

The ratings continue to be constrained by its short track record of operations, weak financial risk profile as indicated by high gearing levels, weak coverage indicators coupled with working capital intensive nature and low profitability margins. The rating is further constrained by high competition from other local players and susceptibility to cyclicality of steel industry and raw material price variability. The rating however draws comfort from the experienced promoters with demonstrated funding support, end user industry profiles and group's established marketing and distribution network.

Background

Incepted in 2008 the company started operation in 2011 after the take over of a bankrupt company called Jalan Forgings Ltd located in Gujarat. Presently AMCPL is owned and managed by Agarwal group. The Agarwal group has been manufacturing various steel products since 1972. AMCPL is engaged in the manufacturing of steel billets, a semi-finished steel product primarily used for the manufacturing of steel structural i.e. bars, rods and tubes. The installed production capacity of AMCPL is 36,000 Metric Tonnes Per Annum (MTPA) as on March, 2014.

Financial Performance

As per provisional financial of FY 14 the company has clocked in y-o-y growth of 133% in total operating income(TOI) which stood at Rs.144.86 Cr against Rs.62.11 Cr for the previous

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

year reflecting healthy demand of its product. However AMCPL is prone to customer concentration risk as 33% of total sales in FY 14 is made to one of its group concern Vivek Steelco Pvt. Ltd. Despite of growth in TOI, operating margins of the company decline by 230 bps to 4.28% in FY 14 due to increase in operating expenditure and higher proportionate expenses related to raw material consumption for lower throughput. Net margin has significantly deteriorated by 106 bps to 0.97 % in FY 14 attributable to higher interest out go compared to previous year. Company's thin margin is owing to low capacity utilization resulting in low absorption of overhead costs and its limited ability to pass on the incremental cost related raw material due to stiff competition.

Overall gearing ratio of AMCPL deteriorated to 3.51x in FY14 (1.35 times as on March 31, 2013) on account its incremental working capital requirements to support the growth momentum & it is expected to be on same line in medium term. The debt protection metrics as reflected by interest coverage & Net cash accruals to total debt continues to stay moderate at 1.77x (2.01x in FY13) & 0.04 times as on March 31, 2014 (0.13 times as on March 31, 2013). Despite of improvement in EBITDA level in FY 14, Interest coverage ratio deteriorated primarily due to higher working capital utilisation leads to higher interest out go.

Operating cycle of the company elongated to 66 days in FY 14 (42 days in FY13) mainly due to delayed payments from customer and higher inventory holdings. The liquidity remains stretched influenced by high working capital requirements coupled with low financial flexibility. Company's working capital utilization continues to remain high as evident from its average bank lines utilization for past trailing 9 months ended as of March 2014 stood at 99%. BWR expects the financial flexibility of AMCPL will remain under pressure due to working capital intensive operations over the medium term.

Rating Outlook

Going forward, the ability of AMCPL to achieve envisaged capacity utilization, increased geographic presence, improvement in profitability margins and capital structure shall remain the key rating sensitivities. The rating may undergo a change, if the company's liquidity stretches further most likely due to lower-than-expected accruals.

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