

## RATING RATIONALE

31 Mar 2020

### Alankar Alloys Private Limited (AAPL)

#### Brickwork Ratings Reaffirms ratings for the Bank Loan Facilities of ₹ 30.00 Crores of Alankar Alloys Private Limited (AAPL or the 'Company').

##### Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous^ (31-Jan-2019)	Present
Fund based Cash Credit	28.00	30.00	Long Term	BWR BBB-Stable	BWR BBB-Stable Reaffirm
Term Loan	5.31	-	Long Term	BWR BBB-Stable	Rating Withdrawn
<b>Total</b>	<b>33.31</b>	<b>30.00</b>	<b>INR Thirty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

^ BWR issued a Rating Not reviewed Advisory on 03-Feb-2020

#### RATING ACTION: Ratings Reaffirmed

BWR has essentially relied upon audited financial results of Alankar Alloys Private Limited (AAPL) upto FY19 & projection up to FY21, publicly available information or clarification/information provided by the Company.

The reaffirmation of the bank facilities of Alankar Alloys Private Limited (AAPL) factors experience of the promoters with established track record of the company in manufacturing of steel products, healthy growth in operations, long standing relations with the customers ensuring repeat orders, vertically integrated operations resulting in better operating efficiency and strategic location of the plant with proximity to raw material.

The ratings are however, constrained on account of below average profitability, intense competition in the fragmented and commoditised TMT bars segment, which limits its pricing

flexibility and exposes the company to fluctuations in raw material prices and working capital intensive nature of operations.

The 'Stable' outlook indicates a low likelihood of a rating change over the medium term. BWR believes that Alankar Alloys Private Limited (AAPL) business risk profile will be maintained over the medium term.

## KEY RATING DRIVERS

### Credit Strengths:

**Established track record of the company with experienced management:** Alankar Alloys Private Limited was established in 2006 & the present management is operating the company since 2011 into manufacturing of MS Billets and TMT Bars. The company is promoted by Mr. Lalit Agrawal, Mr. Pankaj Agrawal and Mr. Akash Agrawal. The promoters are having more than a decade of experience in the iron and steel industry. Mr Lalit Agrawal was earlier into trading of steel products and has an overall experience of more than three decades in the steel industry.

**Strategic location of manufacturing unit-** The company's unit is located at mineral rich state of Raipur, Chhattisgarh having operational advantages of its strategic location with proximity to source of raw-materials (sponge iron). Sponge Iron is procured from local players easily at favourable payment terms. Further, its customers are also located in and around Raipur. The proximity to the raw materials and customers leads to substantial savings in the freight cost.

**Increasing scale of operations-**The Total Operating Income (TOI) of Alankar Alloys Private Limited (AAPL) registered an Y-o-Y growth from Rs 237.98 crore in FY18 to Rs.329.57 crore in FY19. The growth is mainly on account of increase in volumes.

**Moderate financial risk profile -** Modest debt levels coupled with healthy networth levels aided by healthy accruals over the years has resulted in healthy gearing of 0.83x as on March 31, 2019. As on 31 Dec 2019 company net worth stood at Rs 41.64 Crs. The debt coverage indicators of the Company also remained moderate with Interest coverage at 2.12x and DSCR at 1.34 x as on March 31, 2019.

### Credit Risks:

**Below average operating margin:** Although, the profitability margins of the company improved owing to better operational efficiency but the same remained low marked by operating profit margin of 4.26% (4.84% in FY18) and PAT margin of 1.04% (0.31% in FY18) in FY19.

**Susceptibility of operating income to volatility in demand from end-user industries:** The Company primarily caters to the real estate and infrastructure segments. Demand for its product

is linked to the performance of end-user industries which are cyclical and strongly correlated with economic cycles.

**Fragmented industry leading to intense competition-**Alankar Alloys Private Limited is engaged in the manufacturing of TMT bars and billets, the industry of which is characterized by high fragmentation mainly due to presence of a large number of unorganized players. The company markets its products in Central India, which is a hub of steel plants, on account of proximity to the mineral rich states of Chhattisgarh exerting pressure on profitability margins and limiting price flexibility.

**Vulnerability of margins to fluctuation in prices of metal and steel-** Alankar Alloys Private Limited profitability is susceptible to volatility in raw material prices of mainly metal and steel products. The company operates in a highly fragmented and competitive industry which consists of a large number of organised and unorganised players.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has factored into a standalone business and financial risk profile of the Company along with the business Alankar Alloys Private Limited (AAPL) to arrive at the rating as they are engaged in a similar line of business. Reference may be made to the Rating Criteria hyperlinked below.

#### **RATING SENSITIVITIES**

Going forward the ability of the Company to scale up its operations, improve overall financial risk profile of the company backed by improved profitability margins, gearing levels and coverage indicators and efficiently manage its working capital would be key rating sensitivities.

**Positive:** Significant and sustained increase in the scale of operations & profit along with an improvement in the overall credit metrics and better liquidity management will be positive for the ratings.

**Negative:** The rating will be downgraded in case of a significant downturn in the industry leading to a decline in operational/financial performance of the Company, significant decline in profitability & higher working capital requirements negatively impacting liquidity and deterioration in overall credit metrics.

## LIQUIDITY POSITION

The Company's liquidity position remains comfortable as indicated by net cash accruals of Rs. 8.19 crores in FY19 against annual debt obligations of Rs. 0.79 crores. The company has reported a current ratio at 1.40x as on FY19. Further, the Cash Credit average utilization is ~100% however based on the higher drawing power the bank has issued Rs 5.00 Crs additional Adhoc limit to the company. BWR expects the company to maintain a comfortable liquidity profile and further any increase in working capital requirements will be supported by retained earnings.

## COMPANY PROFILE

Alankar Alloys Private Limited (AAPL) was incorporated in Jan 2006 with the main objective of manufacturing billets and TMT Bars. The company is one of the group company under the Pankaj Group. The Company is promoted by Mr. Lalit Kumar Agrawal and Mr. Akash Kumar Agrawal.

Presently the company operates Induction Furnaces with capacity of 72000 MTPA for manufacturing of Steel Billets and Automatic Rolling Mill for Manufacturing of TMT Bars with production capacity of 65000 MTPA. TMT bars being manufactured by the company are sold under the brand name of 'Sagar TMT'. The Company has established wide network of distributors (about 40 distributors) which caters to large number of retailers (roughly 10-15 retailers under each distributor).

## KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	237.98	329.57
EBITDA	₹ Cr	11.29	14.05
PAT	₹ Cr	0.73	3.42
Tangible Net worth	₹ Cr	38.22	41.64
Total Debt/Tangible Net worth	Times	1.03	0.83
Current Ratio	Times	1.24	1.40

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

## NON-COOPERATION WITH PREVIOUS RATING AGENCY: N.A

### RATING HISTORY:

Sr. No.	Instrument / Facilities	Current Rating			Rating History		
		Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating^	31-Jan-2019	2018	10-Mar-2017
1	Fund Based Cash Credit	Long Term	30.00	BWR BBB-Stable Reaffirm	BWR BBB-Stable	-	BWR BB+ Stable
	<b>Total</b>		<b>30.00</b>	<b>INR Thirty Crore Only.</b>			

^ BWR issued a Rating Not reviewed Advisory on 03-Feb-2020

### 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](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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## Alankar Alloys Private Limited (AAPL)

### 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	Punjab National Bank	Cash credit	30.00	-	30.00
<b>TOTAL</b>					<b>30.00</b>

\*PNB has also issued Ad Hoc CC limit Of Rs 5.00 Crs. to the company valid upto Mar 2020.

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