

Amba Shakti Steels Ltd.

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹63.22 Crs of Amba Shakti Steels Ltd.

Particulars:

Facility**	Previous Amount (₹ Cr)	Present Amount Rated (₹ Cr)	Tenure	Previous Rating (Jul, 2019)	Rating* Assigned
Fund Based	39.69	41.22	Long Term	BWR BBB-Stable	BWR BBB-Negative [Reaffirmation]
Non-fund Based	22.00	22.00	Short Term	BWR A3	BWR A3 [Reaffirmation]
Total	61.69	63.22	INR Sixty Three Crores and Twenty Two lacs only		

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

** Details of facilities given in Annexure I.

RATING ACTION / OUTLOOK

BWR has reaffirmed the ratings of BWR BBB-/A3 for Amba Shakti Steels Limited (ASSL). The outlook has been revised from stable to negative owing to deterioration in company's turnover and profitability in FY20 vis-a-vis FY19 ; coupled with downward revision in FY21 projections as compared to the previous projections. Furthermore , in the wake of Covid-19 pandemic, the weak demand and oversupply is likely to result in suppressed steel prices and capacity utilization in the near term, thereby impacting the operating cash accruals. Since, India depends largely on migrant labour, the restarting of construction and infrastructure projects at full pace could be a challenge. The negative outlook also takes into account the elongation in the company's working capital cycle in FY20 coupled with a stretched liquidity position.

The ratings reaffirmation however, is underpinned by reasonable scale of operations, extensive experience of the promoters in the steel industry and a moderate tangible net worth while ratings are constrained by very thin profitability margins due to the highly competitive and fragmented nature of industry and weak coverage indicators.

For assigning the rating ,BWR has relied upon the last 3 years of audited financials till FY20 and projections of FY21 & FY22, publicly available information and clarifications provided by management.

KEY RATING DRIVERS

Rating Strengths

- **Scale of operations** :-In FY20, the total operating income declined by around 28% to Rs. 278.40 Crs as compared to Rs. 386.42 in FY19. However, despite decline in revenues, the company is still operating at a reasonable scale. The decline in overall revenue can also be attributed to the fall in average sales price of steel by around 10% on a Y-o-Y basis in FY20. The YTD turnover of the company stands at Rs. 147.00 crs as on Oct, 2020 and from May, 2020 onwards the company has been able to clock an average monthly turnover of Rs. 24.00 crs per month.
- **Extensive experience of promoters:-** More than 3 decades of experience of promoters in the business of steel manufacturing with a diversified management in terms of experience, age and education and long-term relationships with key customers support the business profile.
- **Modest Net worth** :- In FY20 , the company had a tangible net worth of Rs. 35.85 Crs on account of accumulated profits with a gearing of 1.44x. The overall leverage, TOL/TNW (Total Outside Liabilities / Tangible Net Worth) for the company which stood at 2.40x in FY19 marginally improved to 2.33x in FY20.
- **Lean cash conversion cycle** :- The company had a lean cash conversion cycle of 55 days in FY20, which is expected to improve further in FY21, particularly owing to better and quick realisations.

Rating Weaknesses

- **Vulnerability to fluctuations in input prices; fragmented and competitive industry:** The steel industry in India is characterised by intense competition and fragmentation, with the presence of a large number of units, because of low entry barriers. This restricts the ability of players to pass on any increase in the raw material prices to customers. Therefore, any sharp increase in input prices is likely to have a significant impact on the profitability of the companies operating in the sector.
- **Very thin profitability margins:-** The company's cash flows and profitability is directly exposed to volatility in the input prices. The operating profit margin in FY20 marginally improved to 3.04% with a net profit margin at 0.28 % compared to from 2.73% and 0.24% in FY19.

- **Weak coverage indicators:** - The company in FY20 stood with a weak ISCR (interest service coverage ratio) of 1.43x and DSCR (debt service coverage ratio) of 0.90x owing to deterioration in operating profit as compared to the preceding year.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA : BWR has assessed the company on a standalone basis. Please refer to the applicable criteria at the end.

RATING SENSITIVITIES

Positive: BWR may revise the ratings upward, if the company's scale of operations and profitability improve on a sustained basis.

Negative: BWR may revise the ratings downwards, if there is a deterioration in company's revenue, profitability and liquidity.

Liquidity Analysis (Stretched) :- The company generated an internal cash accrual of Rs 3.78 Crs in FY20 against a CPLTD (current portion of long term debt) of Rs. 4.12 Crs of which only an amount of Rs. 3.72 crs was to be paid, since the installment for March, 2020 was deferred owing COVID-19 pandemic. The cash accruals are inclusive of the deferred tax portion. In FY21, the company is estimated to generate Rs. 3.80 Crs of internal cash accruals with committed repayment obligations of Rs. 2.07 crs for the year. The average fund based limit utilization for the last 12 months stands around 85% of the sanctioned limit.

The current ratio stood at 1.20x in FY19 and 1.12x in FY20.

About the Company:-

Amba Shakti Steels Limited is a Limited Company established at 7th KM Meerut Road, Muzaffar Nagar, UP. The Company is engaged in the manufacturing of Thermo Mechanically Treated. The unit started its Commercial Production in 1989. The installed capacity of the unit is 98000 M.T.P.A. (metric tons per annum) for the manufacturing of MS/TMT Bars. The promoters have extensive experience of about four decades in the manufacturing of TMT bars and are well versed with the market dynamics of the sector. The products of the company are well known in Delhi, Haryana, Uttar Pradesh, Punjab and Haryana. The company has three induction furnaces at the same premise for captive consumption. The company has been accredited ISO 14001 in the year 2004 and also won several awards like Udyog Patra, Udyog Vibhushan, 3 Star Industry Award.

Key Financial indicators

Key Parameters	Units	FY 19	FY 20
Result Type		Audited	Audited
Total Operating Income	Rs in Crs	386.52	278.40
EBITDA	Rs in Crs	10.55	8.46
Net Profit	Rs in Crs	0.93	0.79
Tangible Net Worth (analyzed)	Rs in Crs	35.82	35.85
Total Debt/TNW (analyzed)	Times	1.16	1.20
Current Ratio	Times	1.20	1.12

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED -*There are no Key covenants*

NON-COOPERATION WITH PREVIOUS RATING AGENCY , IF ANY - NA

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

S L N o	Ins tru me nt / Fa cili ty	Current Rating (Nov, 2020)			Rs. in Crs.											
		Type (Long Term / Short Term)	Amount (₹ Crs)	Rating	Jul, 2019	Jul, 2018	Aug, 2018	Mar, 2017								
1	B a n k L o a n FB	Long Term	41.22	BWR BBB-Negative [Reaffirmation]	F B	39.69	BWR BB Stable [Upgrade]	F B	43.00	BWR BB+ Stable [Upgrade]	F B	44.00	BWR BB Stable [Reaffirmation]	F B	47.00	BWR BB Stable
2	B a n k L o a n FB	Short Term	22.00	BWR A3 [Reaffirmation]	N F B	22.00	BWR A3 [Upgrade]	N F B	22.00	BWR A4+ [Upgrade]	N F B	22.00	BWR A4 [Reaffirmation]	N F B	17.00	BWR A4
Total			63.22	INR Sixty Three Crores and Twenty Two lacs only												

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

Analytical Contacts	
<p>[Ankit Dixit] Primary Analyst [Board: +911123412232] [ankit.d @brickworkratings.com]</p>	<p>[Tanu Sharma] [Director – Ratings] Board: +911123412232 [tanusharma@brickworkratings.com]</p>
1-860-425-2742	I media@brickworkratings.com

Amba Shakti Steels Ltd.

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 (erstwhile Oriental Bank of Commerce)	Cash Credit	35.00	-	35.00
		Term Loan	4.08	-	4.08
		Term Loan	2.14	-	2.14
		Letter of Credit	-	15.00	15.00
		Bank Guarantee	-	7.00	7.00
Total			41.22	22.00	63.22

Total INR Sixty Three Crores and Twenty Two lacs only



For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public



notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.