



Rating Rationale

Amba Shakti Steels Ltd.

12 Jul 2019

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 61.69 Crs. of Amba Shakti Steels Ltd..

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Jan 2018)	Present
Fund based	43.00	39.69	Long Term	BWR BB+ (Pronounced as BWR Double B plus) Outlook: Stable	BWR BBB- (Pronounced as BWR Triple B minus) Outlook: Stable (Upgrade)
Non Fund Based	22.00	22.00	Short Term	BWR A4+ (Pronounced as BWR Single A four plus)	BWR A3 (Pronounced as BWR Single A three) (Upgrade)
Total	65.00	61.69	INR Sixty One Crores and Sixty Nine lacs only Only		

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

Ratings: Upgrade

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results of the company upto FY18, Provisional Financials of FY19 and projected financial statements for FY20&21, publicly available information and information / clarifications provided by the company.

The rating draws its strength from experienced management , increase in scale of operations, comfortable liquidity and leverage. The rating is however constrained by weak debt protection metrics, thin profitability margins, intense competition and volatility is the prices of raw materials.



Description of Key Rating Drivers

- **Rating Strengths:**

Vintage 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.

Increase in Scale of Operations :- The company clocked a sales Rs. 195.51 crs in FY18 against of Rs. 150.38 in FY17. However in FY19 , the company has achieved a turnover of Rs. 386.52 on provisional basis, thereby registering a 97.69% of YoY growth in sales in FY19.

Improvement of Cash Conversion Cycle :- A significant improvement in Cash conversion cycle from 109 days in FY17 to 75 days in FY18.

Brand Name and Network :- The company has a well established brand value and a long standing relationship with a diversified base of customers

Location of Manufacturing Facility :- The plant site at Meerut Road, Muzaffarnagar has a location advantage of being strategically located with favourable government policies and ease of access of raw material with conveniently connected by road to all major big cities and towns.

- **Rating Weaknesses:**

Price Volatility :- The major raw material for the company is sponge iron and scrap, the prices of which are very volatile.

Thin Profitability Margins :- The producers of steel products are essentially price-takers in the market, which directly exposes their cash flows and profitability to volatility in the input prices. The operating profit margin was 5.81% with net profit margin at 0.09% in FY17 , while in FY18 the operating profit margin stood at 4.92% with net profit margin 0.47%.

Weak Debt Protection metrics :- Interest Service Coverage ratio stood at 1.40x and Debt Service Coverage Ratio at 1.03x as on 31-03-2018 which is quite weak .

Intense Competition :- The segment is subjected to cut-throat competitive market dynamics.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Amba Shakti Steels Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

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 M.S./T.M.T. Bars.



The unit has started its Commercial Production on 1989. The Installed Capacity of the unit is 98000 M.T.P.A. 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 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. Over the years, the company has won several awards like Udyog Patra, Udyog Vibhushan, 3 Star Industry Award.

Company Financial Performance :-

Key Parameters	Units	2017	2018
Result Type		Audited Audited	Audited Audited
Operating Revenue	₹ Cr	150.38	195.51
EBITDA	₹ Cr	8.74	9.62
PAT	₹ Cr	0.13	0.92
Tangible Net worth	₹ Cr	29.68	30.60
Total Debt/Tangible Net worth	Times	2.50	2.01
Current Ratio	Times	1.41	1.36

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2017)			Rating History			
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	30July, 2018	31March, 2018r	9 March, 2017	2016
1)	Fund Based	Long Term	39.69	BWR BBB- (Pronounced as BWR Triple B minus) Outlook: Stable (Upgrade)	BWR BB+ (Pronounced as BWR Double B plus) Outlook: Stable	BWR BB (Pronounced as BWR Double B) Outlook: Stable	BWR BB (Pronounced as BWR Double B) Outlook: Stable	NA
2)	Non Fund Based	Short Term	22.00	BWR A3 (Pronounced as BWR Single A three) (Upgrade)	BWR A4+ (Pronounced as Single A four plus) Outlook: Stable	BWR A4 (Pronounced as Single A four) Outlook: Stable	BWR A4 (Pronounced as Single A four) Outlook: Stable	NA



	Total	61.69	INR Sixty One Crores and Sixty Nine lacs only Only
--	--------------	--------------	---

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: **Not Applicable**

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor Contacts
<p>RK Sharma Senior Director - Ratings B :+91 11 2341 2232 rksharma@brickworkratings.com</p> <p>Ankit Dixit Ratings Analyst B :+91 11 2341 2232 Ext :111 ankit.d@brickworkratings.com</p>	<p>Satish Nair Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 22 6745 6666 satish.n@brickworkratings.com</p>
1-860-425-2742	

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.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter 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 (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.