Rating Rationale 04 Dec 2020

Amba Shakti Udyog Ltd

Brickwork Ratings reaffirms the ratings with a change in outlook to Negative from Stable for the Bank Loan Facilities of ₹ 91.01 Crores of Amba Shakti Udyog Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2019)	Present
Fund based	55.30	66.01	Long Term	**BWR BBB+** Stable	**BWR BBB+** Negative **[Reaffirmation]**
Non Fund Based	25.00	25.00	Short Term	**BWR A2**	**BWR A2 [Reaffirmation]**
Total	78.30	91.01	INR Ninety One Crores and One Lac only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION/OUTLOOK

BWR has reaffirmed the long term ratings of BWR BBB+ and short term rating of BWR A2 for the bank loan facilities of Amba Shakti Udyog Limited (ASUL). However, 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. It also takes into account the marginal elongation in the company's working capital cycle in FY20, which is expected to stretch further in FY21.

The ratings reaffirmation is underpinned by reasonable scale of operations, extensive experience of the promoters in the steel industry , a moderate tangible net worth and a well established client base of dealers and distributors, however the ratings are constrained due to very thin profitability margins owing to the highly competitive and fragmented nature of industry and decline in turnover and profitability.

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

Key Rating Drivers

Credit Strengths:

- **Reasonable scale of operations despite revenue decline** :- In FY20, the revenues declined by 20% y-o-y to Rs. 647.80 Crs; mainly led by fall in average sales price of steel by around 15% on a y-o-y basis. Weak demand for steel globally led to the decline in sales volume by around 6% compared to the preceding year which also contributed to revenue decline .
  The interim turnover in FY21 as on end- October 2020 stood at Rs. 281.00 crs and with partial revival in demand, revenue in the rest of FY21 is expected to improve, though overall revenue for FY21 is expected to remain subdued as compared to FY19.

- **Above average financial risk profile:-** Financial risk profile is above average which is reflected by a reasonable scale of operations, comfortable net worth, adequate gearing and debt protection metrics , despite a deterioration in indicators on y-o-y basis owing to decline in sales and profitability margins. Gearing (analysed) stood at 1.07x in FY20.Debt coverage indicators (interest service coverage ratio and debt service coverage ratio) were adequate which stood at 3.62x and 1.98x respectively in FY20. Tangible net worth (analysed) stood at ₹ 77.47 Crs in FY20.

- **Brand name and network** :- The company has a well established brand value with the name "Amba Saria" and a long standing relationship with a diversified base of around 450 dealers and 50 distributors, with most of them based out of Madhya Pradesh, Uttar Pradesh , Delhi , Haryana and Rajasthan.

- **Experienced management; group support:-** The rating also draws comfort from the fact that the promoters own two other companies, namely, Amba Shakti Industries Ltd and Amba Shakti Ispat Ltd, which operate in the same line of activity. So, in case of any need, group support could be extended. Ratings benefit from more than 4 decades of experience of ASUL's promoter, Mr. Pravin Nemani in the business of steel manufacturing coupled with a diversified management in terms of experience and age.

Credit Risks:

- **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 stood at 4.71% with a net profit margin at 0.98% with a marginal deterioration from 5.09% and 1.65% in FY19.

- **Elongated cash conversion cycle :-** The company's working capital cycle marginally elongated from 11 days in FY20 from 7 Days in FY19 and is expected to get stretched further to 29 days in FY21 , particularly owing higher inventory holding due to weak demand in post-covid scenario.

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 SENSITIVITIES :-

Positive: BWR may revise the outlook back to Stable, if the company's scale of operations improves substantially along with recovery in operating profitability margin on a sustained basis.
Negative: BWR may revise the ratings downwards, if there is a further deterioration in company's revenue, profitability margins and liquidity.

LIQUIDITY POSITION (Adequate) :- The company generated an internal cash accrual of Rs.20.08 Crs in FY19 against a CPLTD (current portion of long term debt) of Rs. 4.40 Crs in FY18, while in FY20 the company has generated an internal cash accrual of Rs. 19.14 Crs against CPLTD of Rs. 5.96 Crs for FY19 , which has been successfully paid off. While in FY21 , the company is estimated to generate Rs. 17.77 Crs of internal cash accruals with a committed repayment obligation of Rs. 4.55 crs for the year.
The average fund based limit utilization for the last 12 months stood at around 85 % of the sanctioned limit.

About the Company :- Amba Shakti Udyog Ltd was incorporated in March 18, 2014 based in New Delhi.ASUL has Automatic Steel Plant consisting Steel re-rolling unit which have installed capacity of 900 MT per day for manufacturing of TMT (Thermo Mechanically Treated) Steel, bars, angle, channels etc. and 3 Induction Furnaces of Concast machine of 30 MT capacity each for the manufacturing of MS Billets.

Key Financial Indicators

Key Parameters	Units	2019	2020
Result Type		**Audited**	**Audited**
Operating Revenue	Rs in Crs	**804.16**	**647.80**
EBITDA	Rs in Crs	**40.96**	**30.50**
PAT	Rs in Crs	**13.25**	**6.34**
Tangible Net worth (analyzed)	Rs in Crs	**76.82**	**77.47**
Total Debt/Tangible Net worth (analyzed)	Times	**0.98**	**1.07**
Current Ratio	Times	**1.26**	**1.21**

Rating History for the last three years (Including Suspended / withdrawn ratings)

S.No	Instrument /Facility	Current Rating (Dec, 2020)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Nov , 2019	Aug, 2018	Jan ,2018
1)	**Fund Based**	Long Term	66.01	**BWR BBB+** Negative **[Reaffirmation]**	**BWR BBB+** Stable	**BWR BBB** Stab	**BWR BBB-** Stable
2)	**Non Fund Based**	Short Term	25.00	**BWR A2 [Reaffirmation]**	**BWR A2**	**BWR A3+**	**BWR A3**
	Total		91.01	**₹ One Hundred Sixty Five Crores Only**			

Status of non-cooperation with previous CRA (if applicable)- NA

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

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