

## Rating Rationale

Antarctic Industries Ltd.

6 Feb 2019

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 14.25 Crores of Antarctic Industries Ltd.**

### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Dec, 2017)	Present
Fund Based	4.00	4.00	Long Term	<b>BWR BB+ (Pronounced as BWR Double B Plus)</b> Outlook: Stable	<b>BWR BB+ (Pronounced as BWR Double B Plus)</b> Outlook: Stable <b>Reaffirmed</b>
Non-fund Based	10.25	10.25	Short Term	<b>BWR A4+(Pronounced as BWR A Four Plus)</b>	<b>BWR A4+ (Pronounced as BWR A Four Plus)</b> <b>Reaffirmed</b>
<b>Total</b>	14.25	14.25	INR Forteen Crores & Twenty Five Lakhs Only		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

### Ratings: Reaffirmed

#### Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the Antarctic Industries Ltd. (AIL) up to FY18, publicly available information and information/clarifications provided by the company.

The Rating continues to derive comfort from long experience of the directors in the business of manufacturing steel and allied products, robust growth in the company's revenues (~30%) in FY18 and strong financial & operational linkages with the group companies providing support to the overall risk profile of the company. Further, healthy capital structure and robust debt protection metrics strengthen the company's rating.

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The rating, however, is constrained by the company's marginal market share in steel industry amidst highly competitive market, high dependency on group companies' performance and price fluctuations in the raw material rendering the company vulnerable to variability in its margins.

Going forward, ability of the company to improve the scale of operations while maintaining the profitability margins as well as maintaining a healthy capital structure by improving the net worth of the company shall remain the key rating sensitivities.

### **Key Rating Drivers:**

#### **Strengths:**

- **Experienced management & support from group companies:** Presence of around three decades in the steel industry has enabled the promoters to establish strong relationship with suppliers and customers in the steel industry. Further, continued demand from the LSR Mills & LSR forge (sister companies of AIL), together accounting for ~74% of AIL's revenues, mitigates the demand side risk of AIL to an extent. The company's revenues increased from Rs 68.42 Crs (FY17) to Rs 88.65 Crs (FY18) backed by increase in demand from group companies.
- **Comfortable Debt Protection Metrics & Financial Risk Profile:** The company's total debt to tangible net worth stands comfortable at 0.21X (FY18). Its debt protection metrics are robust because of limited long term obligation from banks. Its Interest Service Coverage stood at 3.73x (FY18) as compared to 4.37x (FY17) and Debt Service Coverage at 2.26x (FY18) as compared to 2.35x (FY17). Net Profit Margins stood at 1.39% (FY18) as compared to 2.40% (FY17).

#### **Weakness:**

- **Marginal Share in the Industry & high reliance on group companies' performance:** AIL is a small player in the domestic secondary steel industry. It is engaged in casting different grades of steel (Ingots) from scrap & sponge iron, which are then used by its group companies for making rolled & forged products of steel. Performance of AIL is highly correlated to the group companies as its revenues are directly related to them.
- **Fluctuating prices of Raw Materials:** Prices of scrap, key raw material in manufacturing of ingots, are highly volatile as the prices for scrap change daily. The company does not have any long-term contract with suppliers for quantity and price, which further exposes operating margin to volatility in prices and availability of raw materials.

### **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).

### **Support from Group Companies:**

The rating of AIL is arrived at on a standalone basis after independent evaluation of AIL's financial risk profile.

### **Liquidity:**

As per ABS FY18, the company had cash & cash equivalents of Rs 2.13 Crs with banks, Rs 4.91 Crs as short term loans & advances which are statutory in nature and Rs 0.31 Crs as Other Current Assets. The company utilises above 80% of the limit most of the times which leaves adequate funds with the company in times of liquidity shortage. Operating cash flows in FY18 stood at Rs 1.49 Crs. Out of this Rs 0.92 Crs was invested in purchasing fixed assets which increased from Rs 7.75 Crs (FY17) to Rs 8.33 Crs (FY18).

### **Rating Outlook: Stable**

BWR believes that AIL's 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 company is able to increase its scale of operations while maintaining the profitability margins. The rating outlook may be revised to 'Negative' if there is any adverse movement in the risk profile of the company.

### **About the Company:**

Based in Ludhiana, Punjab and a part of Ludhiana Steel Rolling group, AIL is the manufacturer & supplier of the ingots and it casts different grades of steel. The process involves loading the scrap and sponge iron in the baskets, which is then melted in the induction melting furnace to become molten metal. This molten metal is poured in ingot moulds, where it is cooled and Steel Ingots and Steel castings are derived as the final products which are later sold into the market and to the group companies.

### **Financial Performance:**

AIL booked total operating income of Rs 88.65 Crores in FY18 as against Rs 68.42 Crores in FY17. PAT stood at Rs 1.23 Crores in FY18 as compared to Rs 1.64 Crores in FY17.

Parameters	Units	FY 2018(A)	FY 2017(A)
Total Operating Income	Rs in Cr	88.65	68.42
OPBDIT	Rs in Cr	2.27	2.60
PAT	Rs in Cr	1.23	1.64
Tangible Net Worth	Rs in Cr	18.48	17.24
Total Debt/TNW	Times	0.21	0.21
Current Ratio	Times	1.76	1.72

**Rating History for the last three years:**

Facility	Current Rating			Rating History			
	Amount (Rs. in Cr)		Tenure	Rating	2017	2016	2015
	Previous	Present					
<b>Fund Based</b> (Cash Credit & Term Loan)	4.00	4.00	Long Term	<b>BWR BB+</b> (Pronounced as <b>BWR Double B Plus</b> ) Outlook: Stable	<b>BWR BB+</b> (Pronounced as <b>BWR Double B Plus</b> ) Outlook: Stable <b>Reaffirmed</b>	NA	NA
<b>Non-fund Based</b> (ILC/FLC/BG)	10.25	10.25	Short Term	<b>BWR A4+</b> (Pronounced as <b>BWR A Four Plus</b> )	<b>BWR A4+</b> (Pronounced as <b>BWR A Four Plus</b> ) <b>Reaffirmed</b>		
<b>Total</b>	14.25	14.25	INR Forteen Crores & Twenty Five Lakhs Only				

Status of non-cooperation with previous CRA: NA

Any Other Information: None



## Hyperlink/Reference to Applicable Criteria

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

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### 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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### About Brickwork Ratings

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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.

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