

## Rating Rationale

### Brickwork Ratings reaffirms 'BWR A' & 'BWR A1' for the enhanced Bank Loan Facilities aggregating ₹ 3247.46 Cr of Asian Colour Coated Ispat Limited

Brickwork Ratings (BWR) has *reaffirmed* the following **Ratings**<sup>1</sup> for enhanced Bank Loan Facilities of Asian Colour Coated Ispat Limited (*ACCIL or "the Company"*).

Facility	Previous (₹ Cr)	Present (₹ Cr)	Tenure	Ratings
<b><u>Fund Based</u></b>	<b>1730.00</b>	<b>1817.46</b>		
Cash Credit	790.00	990.00	<b>Long Term</b>	<b>BWR A</b> <b>Outlook-Stable</b>
Term Loan	940.00	827.46		
<b><u>Non-Fund Based</u></b>	<b>970.00</b>	<b>1430.00</b>		
Letter of Credit	970.00	1430.00	<b>Short Term</b>	<b>BWR A1</b> (BWR A One)
<b>Total</b>	<b>2700.00*</b>	<b>3247.46</b>	<b>(INR Three Thousand Two Hundred &amp; Forty Seven Crores and Forty six lakhs only)</b>	

\*Rated BWR A/A1 in June 2013

**Note:** The Company has three consortiums; with State Bank of Patiala being the consortium leader for WC Limits consortium and State Bank of India & Bank of Baroda being the consortium leaders for two Term loans consortiums.

BWR has relied upon the audited financial statements up to FY13, projected financial statements of up to FY15, publicly available information and information/clarifications provided by the Company's management.

The ratings draw strength from the strong industry experience of the management, significant ramp up of operations with successful execution of capex plans, healthy operational and financial performance and increasing focus on value added steel products.

The rating, however, is constrained by the current overall economic conditions that may affect the sector and the Company's stretched working capital cycle.

#### Background:

ACCIL is a closely held limited Company, incorporated in February 2005. It is promoted by Mr. Ram Kumar Aggarwal (since deceased), Mr. Pradeep Aggarwal, Mr. Vikas Aggarwal and AGR Steel Strips Private Limited (ASSPL). The promoters were traditionally in the business of steel trading. In the year 2000, with the acquisition of ASSPL, they initiated manufacturing cold rolled coils, galvanised coils and colour coated coils. The Company's corporate office is located in Gurgaon, while its manufacturing facilities are located in Bawal, Haryana and Khopoli, Maharashtra.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

The Company has completed its two projects: (a) expansion of the existing facilities at Bawal and (b) Greenfield facility at the Khopoli Industrial Estate, Raigarh, Maharashtra. The Bawal II (post expansion) and Khopoli's operations have already begun. At present, Bawal unit has five production lines viz. Hot Rolled Pickled Oil (HRPO) Coils, Cold Rolled Coils, HR Galvanised Coils, CR Galvanised Coils and Colour Coated Sheets/Coils while Khopoli unit has four production lines as it does not manufacture HR Galvanised Coils. Table 1 below summarizes the installed capacity of production lines pre and post expansion for different facilities. ACCIL caters to Original Equipment Manufacturers (OEMs) in the NCR region such as Hero, Honda, LG Electronics, Electrolux, Maruti Udyog, Maharaja Electricals etc., and has a ready market for its galvanised and colour coated coils. The Company has increased its focus on geographical diversification as it will now be able to cater Western region of India and even foreign countries through its Khopoli unit.

**Table 1: Installed capacity at different facilities and commissioning dates of different product lines post-expansion**

Product Line	Bawal I (Pre-Expansion)	Bawal II (Post Expansion)		Khopoli (New Unit)		Total Capacity
	Installed Capacity	Installed Capacity	Commission Date	Installed Capacity	Commission Date	
Hot Rolled Pickled Oiled (HRPO)	300000	150000	March 13	800000	July 12	1250000
Cold Rolled (CR) Coils	180000	0	na	800000	November 12	980000
CR Galvanized Coils	120000	300000	December 13	250000	August 13	670000
HR Galvanized Coils	0	160000	December 13	0	na	160000
Colour Coated Sheets/Coils	60000	0	na	120000	December 13	180000

### Management Profile:

Mr. Pradeep Aggarwal, Vice Chairman, manages the procurement and marketing of all the group companies. Mr. Vikas Aggarwal, Managing Director, handles operations of ACCIL and manages and overseas operations and implementation of the current projects.

ACCIL has a strong second line of professional management. Most of the Company's key personnel have several years of experience with big steel companies such as Bhushan Steel, SAIL, Kalyani Steels etc.

### Financial Performance:

Net Sales increased from ₹ 1726 Cr in FY2012 to ₹ 3015 Cr in FY2013, reflecting y-o-y growth of ~75%. As per the revised projections of FY2014, the company projects Net sales to increase to ₹ 5614 Cr and have already achieved ~70% of the target by Dec 31<sup>st</sup> 2013. The significant increase in Net sales of the Company is attributed to increase in installed capacities of their manufacturing units.

The raw material cost is one of the major cost components and has the potential to impact margins significantly. Operating Profit Margin decreased from 14.65% in FY12 to 11.48% in FY13, due to rising raw materials cost and the inability of the Company to pass the rising costs fully onto the consumers. As a result, the Net profit margin also reduced from 6.69% in FY12 to 4.85% in FY13.

The decrease in Net profit margin is also attributed to rising interest costs as a result of increase in borrowings. Total borrowings have increased from ₹ 1379 crores in FY12 to ₹ 2440 crores due to term loans availed for the expansion projects and increase in working capital requirements which will rise in tandem with sales levels. The tangible net worth as on March 31<sup>st</sup> 2013 was ₹ 1007 Cr as compared to ₹ 772 Cr on March 31<sup>st</sup> 2012. The increase is due to issuance of fresh equity of ~₹ 103 Cr and plough back of profits in FY13. As a result, debt-equity translated to 2.42 times at the end of FY2013. However, the ratio is projected to improve as the company continues to repay their term loans.

ACCIL has stretched working capital cycle, as reflected in Average days of receivables of 96 in FY13. Therefore, efficient working capital management will be required to keep a comfortable debt levels and gearing in the future.

### Rating Outlook:

The Company will continue to reap benefits from the rich experience of the management in the steel industry. However, the ability of Company to increase sales that is commensurate to the enhanced production capacities, effectively manage their working capital requirements along with keeping a check on their debt levels will be key rating sensitivities.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
1-860-425-2742	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

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