

Rating Rationale

16 Mar 2020

Astrotech Steels Private Limited

Brickwork Ratings reaffirms ratings for the Bank Loan Facilities of Rs.38.38Crores of Astrotech Steels Pvt Ltd . (‘ASPL’ or the ‘Company’)

Particulars

Facility**	Amount (Rs Cr)	Tenure	Rating*
	Present (Rs. Crs)		Present
Fund Based		Long Term	BWR BBB/Stable
Term Loan	2.38		
EPC	18.00		
FBD	15.00		
Non Fund Based		Short Term	BWR A3+
Derivatives/CEL	3.00		
Total	38.38	INR Thirty Eight Crores And Thirty Eight Lakhs Only	

*Please refer to BWR website www.brickworkratings.com for definition of the ratings ; ** Details of Bank facilities are provided in Annexure I

Rating Action/Outlook

The reaffirmation of ratings continues to factor the consistent performance of the company, promoters’ extensive experience in the specialized steel products industry, established relationships with customers and moderate financial risk profile. The ratings remain constrained by the exposure to volatility in raw material prices, exposure to fluctuations in forex rate and intense competition from the established players in the industry. BWR has also taken note of the petition filed by some minority shareholders(holding ~26% stake) before the Hon’ble NCLT, Chennai Bench in early 2018 and the steps being taken for early resolution of the matter including providing an exit to such minority shareholders.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Astrotech Steels Pvt Ltd’s** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the revenues and profit show sustained improvement leading to improvement in cash accruals and strengthening of financial risk profile. The outlook may be revised to Negative if the revenues go down, profit margins show lower than expected figures, working capital cycle is stretched pressurizing the liquidity position or any major debt funded capital expenditure leads to stress on the financial risk profile of the company.



Key Rating Drivers

Credit Strengths:

Experienced management and established track record

Astrotech Steels Private Limited has an operational track record of around nine years in the steel industry. The company benefits from the promoters' extensive experience in the industry, understanding of the industry dynamics and established relationships with customers and suppliers.

Established relationships with customers

Over the years, the promoters have fostered relationships with international clients and a few domestic clients, thus establishing a strong client base. The company has been securing repeat business from these clients on a sustained basis, which has facilitated growth in its scale of operations. This also reflects favourably on the company's track record and competitive positioning in the manufacturing of specialized steel products. Some of the key clients are Koki Holdings America Ltd (USA), Southern Carlson INC (USA), Continental INC (USA), AIRBPD (Canada) and Building Materials Distributions (Australia). The top 5 clients contribute ~92% of total sales.

Moderate financial risk profile

ASPL's financial risk profile is moderate with y-o-y growth in revenue, moderate profitability, low gearing and adequate debt protection metrics. Operating income improved to Rs.232.78 Crs for FY19 as against Rs.205.99 Crs in FY18. PAT was moderate at Rs. 21.87 Crs in FY19 as against Rs. 12.72 Crs during FY18. Interest coverage was comfortable at 12.95 times as on 31 Mar 2019 (PY:9.88 times). Debt coverage was also healthy at 7.69 times as on 31 Mar 2019 (4.48 times as on 31 Mar 2018). Tangible Net Worth was Rs. 80.51 Crores and Gearing was comfortable at 0.32 times as on 31 Mar 2019. For 9MFY20 (Provisional), the company reported total operating income of ~Rs.148 Crores

Credit Challenges:

Exposure to volatility in raw material prices:

Steel being the key raw material is a major cost driver for the company. In FY18, the operating margin had declined by around 25% majorly due to fluctuation in raw material prices. However, operating profit margin improved to 13.34% in FY19 from 12.05% in FY18. Any major upward movements in the price of steel may limit the ability of the company to pass on any price increase to the customer thereby impacting the profit margins of the company

Customer concentration risk

The top 5 customers viz., Koki Holdings America Ltd (USA), Southern Carlson INC (USA), Continental INC (USA), AIRBPD (Canada) and Building Materials Distributions (Australia) contribute ~92% of company's revenue. Revenues and earnings depend on the performance of its key customers, apart from other factors such as regulations and duty structures across markets. The risk is mitigated to an extent by the established relationships with its key clientele and addition of new customers in recent fiscals.



Exposure to forex fluctuations

The company is exposed to volatility in forex rates as it derives about 97% of its revenue (in FY19) from exports to countries such as Brazil, Australia, Qatar etc. The firm hedges its receivables through forward contracts, thereby, mitigating the exchange rate fluctuation risk to some extent

Intense competition from established players in the industry

The fastener manufacturing segment in India is highly fragmented in nature with the presence of a large number of unorganised players which leads to pricing pressures and low margins.

Ongoing litigation with minority shareholders

Two of the minority shareholders who collectively hold 25.65% of stake in the company had filed an oppression/mismanagement petition against the company in 2018 before the Hon'ble NCLT, Chennai Bench. These minority shareholders had also expressed their intention of selling their stake in the company and there was a disagreement regarding the valuation of shares and the terms of exit. Various hearings were held in NCLT on this matter. NCLT, vide its order dated 21.11.2019 has appointed two registered valuers (one each chosen by the respondent and the petitioner) for the purpose of fair valuation of shares. The report is expected to be submitted by January 2020 and the next NCLT hearing is slated for 13.02.2020. The company expects to settle this dispute by March 31 2020.

Analytical Approach and Applicable Rating Criteria

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

Rating Sensitivities

The company's ability to increase its scale of operations, improve profitability, ensure timely realisation of receivables, improve liquidity and efficiently manage its working capital requirements would be the key rating sensitivities. Early and amicable settlement/resolution of the dispute with minority shareholders is a key rating monitorable.

Positive:

- Sustained improvement in scale of operations and profitability and strengthening of the financial risk profile.

Negative :

- Decline in scale of operations/profitability due to lower price realisations
- Deterioration in gearing and debt protection metrics
- Any adverse outcome of the ongoing dispute with minority shareholders, which may impact the credit risk profile.



Liquidity Position: Adequate

Utilisation of working capital over the last 9 months is around 60% and hence the company has access to unutilised working capital facilities. Current ratio is adequate at 2.19 times as on March 31, 2019. Cash and Cash Equivalents were around Rs.30 Cr as on December 31, 2019 (provisional). Long term debt obligations are minimal and expected to be serviced comfortably through its cash accruals.

About the Company

Astrotech Steels Private Limited (ASPL), incorporated in November 2011, is an export oriented unit at Sricity Special Economic Zone (SEZ), Chittoor District in Andhra Pradesh. The company’s registered office is in Chennai, Tamil Nadu. ASPL is primarily engaged in the manufacture and distribution of Specialized Steel products like Engineered Fasteners, Concrete Accessories, Coated Wire and other products that primarily cater to the Industrial and Construction sectors. Collated nails like Plastic Strip, Wire Coil, Paper Strip, and Bulk nails etc are some of the company's core products. The plant with an installed capacity of 30,000 MTPA is spread over an area of 4.94 Acres, taken on a 99 years lease. It is located in one of the industrial hubs in India, with close proximity to three major sea ports that have global connectivity to all major ports of the world. This enables the company to cater to customers around the globe and it also helps them to process orders with shorter lead times. The company exports nearly 95% - 97% of the total revenue and largely concentrated on a few customers with the top four customers contributing to 90% of the topline.

Mr.Arun Miranda is the Chairman and Managing Director

Key Financial Indicators

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Revenue from Operations	Rs. Cr	205.99	230.03
EBIDTA	Rs. Cr	24.81	31.06
PAT	Rs. Cr	12.72	21.87
Tangible Net worth	Rs. Cr	58.52	80.51
Total Debt/Tangible Net worth	Times	0.52	0.32
Current Ratio	Times	1.73	2.19

During 9MFY20 (Provisional), the company reported total operating income of ~Rs.148 Crores

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years

Facility		Current Rating (Mar 2020)		Rating History		
Type	Amount (Rs. Crs)	Rating	18 Dec 2019	Dec 05, 2018	Sep 13, 2017	
Fund Based						
Term Loan	Long Term	2.38	BWR BBB/Stable	BWR BBB/Stable	BWR BBB/Stable	BWR BBB/Stable
EPC		18.00		BWR A3+	BWR A3+	BWR A3+
FBD		15.00				
Non Fund Based			BWR A3+	BWR A3+	BWR A3+	
Derivatives/CEL	Short Term	3.00				
Total		38.38	Rupees Thirty Eight Crores And Thirty Eight Lakhs Only			

Note: Initial rating of BWR BBB/Stable/A3 was assigned on 18 Aug 2015

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](#)

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Astrotech Steels Pvt Limited

**Annexure I
Details of Bank Facilities rated**

SI No.	Name of the bank	Facility	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1	State Bank Of India, Chennai	Term Loan	2.38	-	2.38
		EPC	18.00		18.00
		FBD	15.00		15.00
		Derivatives/CEL	-	3.00	3.00
Total : Rupees Thirty Eight Crores And Thirty Eight Lakhs Only					38.38

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