Rating Rationale

Astrotech Steels Pvt. Ltd.

5 Dec 2018

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs 43.20 Crores of Astrotech Steels Pvt. Ltd.(ASPL)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund based	15.18	**7.20**	**Long Term**	**BWR BBB** (Pronounced as BWR Triple B) **(Outlook: Stable)**	**Reaffirmed at BWR BBB** (Pronounced as BWR Triple B) **(Outlook: Stable)**
	36.00	**36.00**	**Short Term**	**BWR A3+** (Pronounced as BWR A Three Plus)	**Reaffirmed at BWR A3+** (Pronounced as BWR A Three Plus)
Total	51.18	**43.20**	**INR Forty Three Crores and Twenty Lakhs Only**		

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

Ratings: Reaffirmed
Rationale/Description of Key Rating Drivers/Rating sensitivities:
BWR has essentially relied upon the audited financial results of ASPL up to FY18, projected financials upto FY20 and information and clarifications provided by the Company.

The rating continues to factor promoter's experience in the fastener manufacturing business, established relationships with overseas client base, healthy order book position, comfortable gearing level, debt protection metrics and moderate revenue growth. However, the rating is constrained by declined operating margin due to fluctuations in raw material prices, exposure to forex risk, customer concentration risk, intense competition from established players in the industry.

Going forward, the ability of the company to scale up its operations, improve profitability, diversify its customer base and managing working capital effectively shall be the key rating sensitivities.

Description of Key Rating Drivers

Experienced management:

Experience of the promoters in the fastener-manufacturing industry. Mr. Arun Miranda, Chairman & Managing Director has experience in setting up and successfully managing Industrial projects in different countries, which has enabled to build relationship with overseas customers and suppliers to grow at a healthy pace in the last few years.

Established customer base:

Over 95% of the company's products are exported to USA and to few European and Asian nations. The company has strong relationships with these customers and also added several new customers in the recent past. Nevertheless, the customer concentration remains high with four customers accounting most of the revenue.

Improvement in topline and operational performance:

The revenue of the company has grown by ~10% during FY18 backed by increase in volume and prices of the finished goods. The capacity utilization has improved and the company has orders of over ₹44 crores and already achieved a revenue of ₹136.46 Crs in 7MFY19 which is inline with the projected figures for FY19.

Comfortable financial risk profile:

The capital structure of the company remained comfortable on back of retained earnings and reduction in debt levels with overall gearing ratio at 0.52x as on March 31, 2018 as against 0.83x as on March 31, 2017. Despite moderate decline in coverage ratios, interest coverage and debt coverage ratios are comfortable at 9.87x and 4.47x, respectively in FY18.

Exposure to volatility in raw material prices and currency fluctuation:

The price of steel, which is the key raw material and a cost drive for the company. In FY18, the operating margins has been declined by 25.75% majorly due to fluctuation in the raw material prices. Though, the finished goods moves in tandem with raw material prices, however with a time lag and absence of price variation clauses may limits to pass on any price increase. Further, the company's profitability remains exposed to adverse fluctuations in foreign currency.

Customer concentration risk:
Top four customers of the company accounted over 80% of sale during FY18 thereby exposing the company towards customer concentration risk. Any changes in the procurement pattern from these customers may impact the ASPL's business. However, the company is able to get repetitive orders from these clients and also taken several business initiatives to explore expanding their client base.

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.

Disputes with minority Shareholders:
The two minority shareholders have filed a petition at NCLT earlier in this calendar year against the company. Negotiations are in progress between the shareholders to arrive at a mutual settlement that would pave way for the exit of these two minority shareholders. The matter is still pending under NCLT, the company expected to arrive at a settlement very soon.

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 **ASPL** 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
ASPL, incorporated in November 2011, is an export oriented unit at Sri city Special Economic Zone (SEZ), Chittoor District in Andhra Pradesh. ASPL is primarily engaged in the manufacture and export of collated and bulk fasteners (nails). Collated nails like Plastic Strip, Wire Coil, Paper Strip, and Bulk nails etc are some of company's core products. The company has approved capacity is 30,000 MT/Annum in FY18.

Company Financial Performance
Total operating income is ₹205.99 Crores in FY18 against ₹187.47 crores in FY17. The net profit of the Company was at ₹12.72 crores in FY18 as against ₹22.07 crores in FY17.

Rating History for the last three years

S.No	Instrument	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2017	2016	2015
1	**Fund Based**	Long Term	7.20	BWR BBB (Outlook: Stable)	BWR BBB (Outlook: Stable)	BWR BBB (Outlook: Stable)	BWR BBB (Outlook: Stable)
2		Short Term	36.00	BWR A3+	BWR A3+	BWR A3	BWR A3
	Total		43.20	**INR Forty Three Crores and Twenty Lakhs Only**			

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

Key Financial Indicators

Key Parameters	Units	2017	2018
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	187.47	205.99
EBITDA	₹ Cr	30.43	24.81
PAT	₹ Cr	22.07	12.72
Tangible Net worth	₹ Cr	46.09	58.81
Total Debt/Tangible Net worth	Times	0.83	0.52
Current Ratio	Times	1.60	1.73

Annexure 1:
Details of Bank facilities

Bank	Particulars	Previous Rating Limits (Amt in Rs Cr)	Present Rating Limits (Amt in Rs Cr)
State Bank of India	**Long Term Fund Based Facility**		
	Term Loan (I and II)*	15.18	7.20
	Short Term Fund Based Facility		
	EPC/PCFC	18.00	18.00
	FBD (Non-LC)/EBR	15.00	15.00
	Derivative / FC / CEL	3.00	3.00
	Total	**51.18**	**43.20**

*Term Loan outstanding as on 31 Oct 2018

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	Media
Vipula Sharma *DGM-Ratings* analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 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.