

Rating Rationale

4 August 2020

AASHIANA ROLLING MILLS LTD

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 34.70 Crores of Aashiana Rolling Mills Ltd. (Hereinafter referred as “ARML” or the “Company”)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2019)	Present
Fund Based	37.14	32.70	Long Term	BWR BBB (Stable)	BWR BBB (Outlook revised from “Stable” to “Negative”) Reaffirmed
Non-fund Based	4.00	2.00	Short Term	BWR A3+	BWR A3+ Reaffirmed
Total	41.14	34.70	Rupees Thirty Four Crores and Seventy 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

Rating Action/Outlook:

Brickwork Ratings (BWR) has reaffirmed the rating at BWR BBB/A3+ with a Negative outlook assigned to the bank loan facilities of Aashiana Rolling Mills Ltd.

The rating reaffirmation factors,inter alia, moderate financial risk profile coupled with comfortable gearing and capital structure. Further, the rating factors in promoters’ extensive experience in the line of steel business and established brand name “Friends Steel” in the Gujarat market. The Rating is however, constrained by stretched liquidity position, working capital intensive nature of operations, and low net profit margins. Furthermore, the company is exposed to the susceptibility of margins due to volatility in the prices of steel products and high competition due to the fragmented nature of industry.

The outlook is revised to Negative given the overall adverse impact of the nationwide lockdown on economy and business uncertainties arising due to COVID-19 related challenges. Going forward, it may affect the business and liquidity position of the company.

KEY RATING DRIVERS :

BWR principally relied on audited financials upto FY19, provisional financials of FY20, projections of FY22, publicly available information and information/clarification provided by the management.

Credit Strengths:

- **Experienced promoters and established market position of “Friends Steel”** : ARML has an established presence since 2007 and managed by Mr. Devendrakumar Goyal and family, who has extensive experience of more than three decades in the line of activity. Over the years the group has built a reputed brand name “Friends Steel” in Gujarat steel market. Thus, the promoters long standing relationships with suppliers as well as dealers and distributors are expected to support the business profile.
- **Moderate Financial Risk Profile** : The Company has reported a significant growth in the total operating income of Rs. 361.70 Crs in FY19 against Rs. 211.16 Crs in FY18, backed by ramp of production capacity and sales volume. However, the revenue dipped by 14% in FY20 mainly on account of volatility in the steel prices. As per management certified provisional financials of FY20, the Company has achieved a revenue of Rs. 314.26 Crs. The Company’s financial risk profile is moderate marked by a comfortable net worth base of Rs. 30.75 Crs in FY19 against the total borrowing of Rs. 36.16 Crs. This has resulted in the low gearing of 1.18x in FY19 against 1.36x in FY18 due to timely repayment of term loans. Going forward, subdued demand for steel due to the prevailing situation as a fallout of COVID-19 pandemic, operating revenue may decline during FY21.

Credit Risks:

- **Thin profit margins coupled with weak coverage indicators** : The company’s profitability remains weak due to volatile steel prices and intensely competitive nature of business. The operating profit margins have declined from 2.60% to 2.11% and net profit margin from 0.66% to 0.18% in FY18 and FY19 respectively. ARML’s weak profitability coupled with high interest cost have reflected in the weak debt coverage. ISCR stood at 1.82x and DSCR at 1.02x in FY19.



- **Susceptibility to cyclical and fluctuation in raw material prices:** The profitability is vulnerable to fluctuations in the prices of raw materials as the latter constitutes ~90% of the company's operating expenses. Further the performance of the company is linked to the steel industry, with cyclical changes in demand and price volatility.
- **Geographical and end-user industry concentration:** ARML generates its entire revenue through sales in Gujarat region. This exposes the Company's revenue and profitability to risks related to geographical concentration. The demand for steel products depends on the growth of primary end user segments such as infrastructure and real estate. Any slowdown may in turn adversely affect the demand for steel products over the medium term.

RATING SENSITIVITIES

Positive:

Substantial growth in revenue and profitability while maintaining working capital cycle and improvement in gearing, current ratio above 1.20x and comfortable debt protection metrics are key rating positives.

Negative:

If there is a significant dip in operating performance, sustained pressure on margins, elongation of its working capital cycle owing to the Corona Pandemic, increased level of borrowing may adversely impact its financial risk profile and liquidity position.

LIQUIDITY POSITION: Stretched

Net cash accruals are Rs 3.24 Crs in FY18 and Rs. 3.65 Crs in FY19. Cash accruals were sufficient to meet repayment obligation. However, the Average working capital utilization more than 90% in FY20 indicates high dependency on bank borrowings. Further, the Current ratio is low at 0.86x in FY19 as compared to 0.97x in FY18. Though the working capital cycle is short with low inventory holding period and receivable days. The moratorium benefit has been opted under the COVID-19 Relief Package announced by RBI. Post moratorium, 6-months' interest to be paid, as per the scheme. BWR believes that it would support the Company's liquidity in the near term. Going further, timely repayment of the debt obligations will be key rating sensitivity

COMPANY PROFILE

Aashiana Rolling Mills Ltd was incorporated and promoted in 2007 by Mr. Devendrakumar Goyal at Kerala, GIDC, Ahmedabad for manufacturing of TMT Bars. Mr. Devendra Kumar Goyal (M.Tech – IIT Roorkee) has been associated with the steel industry for more than three decades. The other directors, Mr. Anshum Goyal (MBA - IMI New Delhi) & Mr. Ankit Goyal (MBA - IIM Calcutta) run the group companies under the guidance of Mr. Devendra Kumar Goyal, the founder of the company and the Group. The installed capacity of the plant is 1.44 lakh MTPA.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Not Applicable

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Income	₹ in Cr	361.70	211.16
EBITDA	₹ in Cr	7.63	5.50
Net Profit	₹ in Cr	0.64	1.40
Tangible net worth	₹ in Cr	30.75	30.11
Debt/Tangible net worth	Times	1.18	1.31
Current Ratio	Times	0.86	0.97

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Not Applicable

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (2020)^			Rating History		
	Tenure	Amount (₹ Cr)	Rating	20Mar 2019	23Mar2018	6Sept2017
Fund Based	Long Term	32.70	BWR BBB (Outlook revised from “Stable” to “Negative”) Reaffirmed	BWR BBB (Stable)	BWR BBB- (Stable)	BWR BBB- (Stable)
Non Fund Based	Short Term	2.00	BWR A3+ Reaffirmed	BWR A3+	BWR A3	BWR A3
Total		34.70	Thirty Four Crores and Seventy Lakhs Only			

^ Rating not reviewed advisory issued on 23rd March 2020.

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

For any other criteria obtain hyperlinks from the website

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Aashiana Rolling Mills Ltd

ANNEXURE I - Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	Yes Bank	Fund Based : Cash Credit (Sublimit : WCDL) Term Loans	21.50 (20.00) 11.20	- - -	32.70
2	Yes Bank	Non Fund Based Bank Guarantee	-	2.00	2.00
TOTAL					34.20

Total INR Thirty Four Crores and Seventy Lakhs Only.



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