

Rating Report

Brickwork Ratings revises ratings to ‘BWR BBB-/A3’ from ‘BWR BB+/A4+’ for the Bank Loan facilities amounting to ₹120.00 Crores (reduced from ₹126 Crores) of AGR Steel Strips Private Limited.

Brickwork Ratings has revised the **Ratings**¹ for the Bank Loan facilities amounting to ₹120.00 Crores of AGR Steel Strips Private Limited (“ASSPL” or “the Company”) as follows:

Facility*	Limits ₹ Crores		Tenure	Previous Rating Feb 2014	Present Rating Aug 2015
	Previous	Present			
Cash Credit	76.00	75.00	Long Term	BWR BB+ (Outlook: Stable)	BWR BBB- (Outlook: Stable) Upgraded
Letter of Credit	50.00	45.00	Short Term	BWR A4+	BWR A3 Upgraded
Bank Guarantee (Sublimit of LC)	-	(5.00)			
Total	126.00	120.00	Rupees One Hundred and Twenty Crores Only		

*Details of facilities are shown in Annexure I

BWR has principally relied upon the audited financial results upto FY14, provisional financials of FY15, projected financials upto FY16, publicly available information and information/clarifications provided by the Company’s management.

The rating revision reflects the consistent improvement in revenue and profit of the company over the last three years. The rating continues to factor the promoter’s experience & long track record of the Group in the steel industry, consistent revenue growth and comfortable capital structure. However, the rating continues to be constrained by the moderate profit margins, competitive nature of industry and working capital intensive nature of operations.

Business Overview:

AGR Steel Strips Pvt Ltd. (ASSPL) was incorporated on October 20, 1992. It was acquired by the current promoters Mr. Ram Kumar Aggarwal, Mr. Pradeep Aggarwal and Mr. Vikas Aggarwal in 2000.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

The Company is engaged in manufacturing of Hot Rolled Pickled and Oiled (HRPO) and Cold Rolled Close Annealed (CRCA) steel strips /coils. The Company's registered office is located at New Delhi and manufacturing unit at Dharuhera, Haryana about 70 km from Delhi and has installed capacity to manufacture 60000 TPA of HRPO and 40000TPA of CRCA. The capacity utilization level was around 88% in FY15.

ASSPL is part of the Haryana based Asian group of Companies. The group is one of the large steel manufacturers in Haryana and the group comprises of Asian Color Coated Ispat Limited (ACCIL) and Asian Ispat FZC (AIF) (incorporated in United Arab Emirates), ACCIL Auto Steel Pvt Ltd which are engaged in manufacturing Cold Roll Coils, Galvanized Cold Rolled Sheets and Colour Coated Sheets etc.

Management Profile

The Board of ASSPL comprises of Mr. Pradeep Aggarwal and Mr. Vikas Aggarwal, brothers, in the capacity of Directors. Both have extensive experience of over 20 years in the cold rolled steel strips manufacturing industry.

Financial Performance:

The Company has reported net profit of ₹11.55 Crores on net revenues of ₹476.39 Crores in FY14, as against net profit of ₹10.20Crores on net revenue of ₹430.00 Crores in FY13. As of 31st March 2014, the Company's tangible net worth stood at ₹75.42 Crores. Gearing was comfortable at 1.60 times in FY14, as against 1.43 times in FY13. On a provisional basis, the Company has achieved net profit of ₹10.62 Crores on net revenue of around ₹ 486.36 Crs in FY15. Key financial performance indicators are provided in Annexure II, III & IV.

Auditors Comments in the Auditor's report for FY14

The Auditors of the company have made certain observations/comments in their Report on the Annual Accounts of ASSPL for FY14. For FY14, the Company has reported contingent liabilities of ₹3910 Crores relating to corporate guarantees extended to group companies Asian Colour Coated Ispat Ltd (ACCIL) (Rated BWR A (Stable) /A1 in Aug 2015) and Asian Ispat FZC (AIF). In the auditor's report of FY14, it is stated as follows: "Seeing the terms and conditions, quantum of guarantee and networth of Company it appears to be prejudicial to the interest of the company.

The management of the company opine that ASSPL & ACCIL have common directors and ASSPL has been a shareholder of ACCIL right from inception (presently holds 7.3% stake). At the time of setting up of operations of ACCIL, ASSPL was already an established firm with stable and profitable operations. Hence, ASSPL had offered corporate guarantee to lenders of ACCIL as per the sanction terms. There has been no instance of invocation of the said corporate guarantee till date.

Both the companies have common management, crossholdings and intercompany transactions. The interests of both the Companies are aligned and it is expected that they would continue their business operations without defaulting on their debt obligations. As such, the management strongly believes that the said corporate guarantee extended to ACCIL is not prejudicial to the interests of the Company.

BWR has accepted the Management's representations and not made any adjustments for their analysis.

Rating Sensitivities

The rating outlook is expected to be stable over the current year. The Company's ability to sustain revenue growth, improve operational efficiency and profit margins, continuous monitoring the group companies' performance to mitigate the off balance sheet exposure and effectively manage its working capital would be the key rating sensitivities. However, any enforcement of corporate guarantee extended to group concerns will have an adverse impact on the ratings of ASSPL.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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Annexures-I

Bank Loan Facilities

Name of the Bank	Name of Facility	Amount (₹ Crores)
Bank of Baroda	Fund Based: Cash Credit	60.00
	Non Fund Based: Letter of Credit	40.00
	Non Fund Based: Bank Guarantee (Sublimit of LC)	(5.00)
	Total (Fund + Non Fund)	100.00
South Indian Bank	Fund Based: Cash Credit	15.00
	Non Fund Based: Letter of Credit	5.00
	Total (Fund + Non Fund)	20.00
Total		120.00

Annexures-II
Balance Sheet – AGR Steel Strips Pvt Ltd

(₹ Crores)

Year Ended	FY13	FY14
Result Type	Audited	Audited
Equity and Reserves	63.87	75.42
Share Capital	25.00	25.00
Reserves & Surplus	38.87	50.42
Non Current Liabilities	2.56	2.31
Long-Term Borrowings	1.44	1.15
Deferred tax Liabilities (Net)	1.11	1.16
Current Liabilities	93.30	123.03
Short-Term Borrowings	89.67	119.06
CPLTD	0.31	0.16
Trade Payables	0.68	0.57
Other Current Liabilities	2.27	2.66
Short-Term Provisions	0.37	0.57
Total Liabilities	159.72	200.76
Assets		
Non Current Assets	19.65	19.20
Net Fixed Assets	12.92	12.97
Capital WIP	0.29	0.29
Non Current Investments	4.90	4.90
Long Term Loans & Advances	1.54	1.05
Current Assets	140.07	181.56
Inventories	44.55	61.06
Receivables > Six Months	4.88	4.45
Receivables < Six Months	84.37	107.02
Cash and Cash Equivalents	3.94	5.07
Short-Term Loans and Advances	2.27	3.90
Other Current Liabilities	0.06	0.06
Total Assets	159.72	200.76

Annexures-III
Profit/Loss – AGR Steel Strips Pvt Ltd

(₹ Crores)

Year Ended	FY13	FY14
Result Type	Audited	Audited
Net Sales	430.00	476.39
Other Operating Income	0.00	0.00
Total Operating Income	430.00	476.39
Operating Expenses	403.13	444.92
OPBDIT	26.87	31.47
Depreciation/Amortization/Impairment	1.02	1.03
OPBIT	25.85	30.44
Interest and Finance Charges	12.16	15.47
OPBT	13.68	14.97
Non Operating Income(Expenses)	1.41	2.13
PBT	15.09	17.10
Provision for Taxes	4.90	5.55
PAT	10.20	11.55

Annexures-IV
Key Ratios – AGR Steel Strips Pvt Ltd

Year Ended		FY13	FY14
Result Type		Audited	Audited
Total Debt	₹ Crs	91.43	120.38
Tangible Net Worth	₹ Crs	63.87	75.42
Total Debt/TNW	Times	1.43	1.60
Long Term Debt/TNW	Times	0.02	0.02
ISCR	Times	2.21	2.03
DSCR	Times	1.88	1.78
Net Cash Accruals/Total Debt	Times	0.12	0.10
Net Profit Margin	%	2.37	2.43
Operating Profit Margin	%	6.25	6.61
ROCE	%	17.06	17.23
Current Ratio	Times	1.50	1.48
Days Receivables	Days	72	77
Days Inventory	Days	40	44