

Rating Report

Brickwork Ratings assigns 'BWR B+' for the Bank Loan Facilities aggregating ₹ 11.60 Cr of Ambekeshwar Steels Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the following **Rating¹** for the Bank Loan Facilities of Ambekeshwar Steels Pvt. Ltd. (ASPL or 'the Company').

Facility	Amount (₹ Cr)	Tenure	Rating
Cash Credit (Fund Based)	6.00	Long Term	BWR B+ (Pronounced as BWR Single B Plus) Outlook: Stable
Term Loan (Fund Based)	5.60		
Total	11.60	INR Eleven Crores and Sixty Lakhs only	

ASPL, being a new company which has just commenced commercial operations, BWR has principally relied upon the detailed project report and perused the projected financials up to FY17, publicly available information and information/clarifications provided by the company.

The rating draws strength from the strong industry experience of the management and the established distribution network of their associate company, Ambuja Pipes Pvt Ltd, which will help the company in establishing itself in the market. The rating also takes into account the positive demand prospects for the Steel Pipes/Tubes. The rating is, however, constrained by the limited track record of the company, delay in commencement of commercial operations, susceptibility of profitability to volatility in raw material prices, intense competition in the sector and working capital intensive operations of the company.

Background:

Incorporated in 2011 at Rajasthan, Ambekeshwar Steels Pvt Ltd (ASPL) has set up a manufacturing plant for Electric Resistance Welded (ERW) Pipes and Galvanized Iron Pipes. The company has an installed capacity of 12000 MT/PA. The company can manufacture ERW Pipes of sizes ranging from 0.5 inch diameter to 2.5 inches diameter, Square sections upto 72mm*72mm and Rectangular sections upto 50mm*100mm. The products find their application in the Real Estate and Infrastructure segments. Although the plant was expected to become operational in January 2014, due to delays in the supply and erection of machinery, ASPL started the commercial production on July 16, 2014.

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

The principal raw materials required are Steel and HR coils which the company plans to procure from the major Iron & Steel Manufacturing companies of the country. ASPL plans to sell its products via the established distribution network of its associate company, Ambuja Pipes Pvt Ltd (owned by the promoter's father). The dealers are spread across Rajasthan which will help the company in spreading its reach in the entire state. In the future, ASPL also plans to start the production of steel cylinders also.

Management:

The company has two directors, Mr. Rahul Aggarwal and Mrs. Radhika Aggarwal (wife of Mr. Rahul Aggarwal). Both the directors are Post Graduates in Business Management and are guided by their family members who have been associated with the industry for more than three decades.

Financial Highlights:

The promoters have infused Rs. 2.14 Cr as Share Capital and Rs. 1.02 Cr as Unsecured Loans till date. ASPL expects to report a Net Income of Rs. 32.59 Cr for FY15 (first year of operations) with an EBITDA margin of 11.57% and Net Margin of 4.91%.

Key Rating Determinants:

Efficient Distribution Network: The company will be selling its products through the distribution network of its Associate Company, Ambuja Pipes Pvt Ltd. The company has a network of more than 300 dealers across Rajasthan which will help ASPL in establishing its operations.

Positive Demand Prospects for Steel Pipes/Tubes: The ERW Pipes are mostly used in various infrastructure development projects. With the long term view of the Infrastructure sector being positive, since the focus towards infrastructure development has increased with the new Government, the long term demand prospects for Steel Pipes and Tubes are also positive.

Limited Track Record of the Company: The company has started commercial production only in mid-July 2014 and thus has no track record on standalone basis. It still has to establish itself in the market.

Susceptibility of Profitability to Volatility in Raw Material Prices: The steel prices are very volatile and any upside movement in the steel prices will directly impact the profitability of the company limiting the financial flexibility.

Intense competition in the Sector: Steel Pipes manufacturing industry is a very fragmented industry with the presence of a large number of small and large companies/firms and low entry

barriers. The intense competition further limits the bargaining and pricing power with the customers.

Rating Outlook:

The outlook is expected to be stable for the current year. Going forward, the ability of the company to stabilise its operations, achieve the projected revenue level and profitability and ensure timely infusion of funds would form the key rating sensitivities.

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