

Rating Rationale

Brickwork Ratings assigns 'BWR A' & 'BWR A1' for ₹ 2700 Cr Bank Credit Facilities of Asian Colour Coated Ispat Ltd.

Brickwork Ratings (BWR) has assigned BWR A **Rating**¹ with Stable outlook and BWR A1 for Rs. 2700 Crores Bank Credit Facilities of Asian Colour Coated Ispat Ltd (ACCIL)

Instruments	Amount (In Rs. Cr)	Assigned/ Reaffirmed	Rating History
Fund Based:			
Term Loan Cash Credit	940* 790	Assigned BWR A (Stable) (May 24, 2013)	Assigned BWR A- (Stable)* (June 29, 2012)
Non Fund Based:			
Letter of Credit	970	Assigned BWR A1	
Total	2700	(INR Two Thousand Seven Hundred Crores only)	

**In June, 2012 BWR had rated Term Loan of Rs. 338 Crores which is currently a part of Term Loan facilities amounting to Rs. 940 Crores rated by BWR in May, 2013.*

The rating has factored, inter alia, the Management's experience in the steel industry, healthy operational / financial performance, increasing focus on value added products and completion of the expansion projects. The rating, however, is constrained by the current overall economic conditions which could affect the sector, and the Company's stretched working capital cycle.

BWR has essentially relied upon the audited financial results of ACCIL up to FY12, provisional key figures for FY13, and projected financials for FY14 & FY15, and information and clarifications provided by the Company.

Asian Colour Coated Ispat Ltd (ACCIL)

ACCIL is a closely held public limited Company. It was incorporated in February 2005. It is promoted by Mr. Ram Kumar Aggarwal, Mr. Pradeep Aggarwal, Mr. Vikas Aggarwal and AGR Steel Strips Pvt Ltd (ASSPL). The promoters were traditionally in the business of steel trading. In the year 2000, with the acquisition of AGR Steel Strips Pvt. Ltd, they began manufacturing

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

cold rolled coils, galvanized coils and colour coated coils. The Company's corporate office is located in Gurgaon, while its manufacturing facilities are located in Bawal, Haryana.

The Company has completed its two projects: (a) expansion of the existing facilities at Bawal and (b) a Greenfield facility at the Khopoli Industrial Estate, Raigarh and Maharashtra. The Bawal II (post expansion) and Khopoli's operations commenced in April 2013. Table 1 below summarizes the production capacity of the different facilities. ACCIL caters to Original Equipment Manufacturers in the NCR region such as Hero Honda, LG Electronics, Electrolux, Maruti Udyog, Maharaja Electricals, etc., and has a ready market for its galvanized and colour coated products. In future, the Company plans to focus on its value-added products to benefit from the higher margins.

Table 1: ACCIL – Installed capacity at different facilities

Facility Location	Status	Product Line / Capacity (in TPA)
Bawal, Haryana	Existing	Hot Rolled Pickled Oiled (HRPO) – 300000 Cold Rolled (CR) Coils - 180000 CR Galvanised Coils - 120000 Colour Coated Sheets / Coils – 60000
Bawal, Haryana	After Expansion	HRPO – 150000 CR Galvanising Line – 300000 HR Galvanising Line – 160000
Khopoli Industrial Estate, Maharashtra	Implemented	HRPO – 800000 CR coils – 800000 CR Galvanised coils – 250000 Colour Coated Sheets/ Coils– 120000

Management Profile

Mr. Ram Kumar Aggarwal is the chairman of ACCIL; having entered the steel industry in the early 1990's he has vast experience in the steel business. Mr. Pradeep Aggarwal, Vice Chairman, manages the procurement and marketing of all the group companies. Mr. Vikas Aggarwal, Managing Director, handles operations of ACCIL and manages and oversees operations and implementation of the current projects.

ACCIL has a strong second line of professional management. Most of the Company's key personnel have several years of experience with big steel companies such as Bhushan Steel, SAIL, Kalyani Steels, etc.

Industry Analysis

India was ranked the world's fifth largest producer of crude steel in 2010 and is projected to become the world's second largest producer by 2015–2016. The domestic demand for steel is

expected to grow at annual average rate of 10.3% in the next 5 years. Government's emphasis on infrastructure development and planned investments in the Indian Railways, Metro Rail projects, airport upgradations and urban infrastructure are expected to provide a further boost to the domestic steel requirement.

However, demand for flat steel products is expected to grow at 8 – 9% over the next two years. In absolute numbers flat steel demand is expected to grow to 33.4 MT in 2014. Demand for galvanized steel products (plain as well as corrugated sheets) has witnessed an upward trend due to good demand from end-user industries. Hot rolled galvanized steel products are used in scaffoldings, construction sheds, heavy machinery outer bodies, the shipping industry and various other heavy duty applications. Cold rolled galvanized products are used in roofing, in white goods and in truck / bus bodies. Colour coated products find wide usage in the construction, home appliances and automobile industries.

Finished steel products can be broadly categorized into 'Long Products' and 'Flat and Strip Products'. Long Products include bars and rods, TMT bars, Wire Rod, Angles, Sections, Rails and Bright bars. Flats include plates, sheets, hot rolled and cold rolled strips. Flats and Strips typically have higher margins than Long products.

Financial Analysis:

Net Sales of ACCIL increased from Rs. 1727 crores in FY12 to Rs. 3017 crores in FY13 (provisional), reflecting a y-o-y growth of 75%. Sales CAGR between 2009 and 2012 was ~23%. In FY14 and onwards, sales are expected to increase substantially, on the back of capacity expansion.

The raw material cost is one of the major cost components of the company and its affects the margins significantly. EBITDA margin for FY13 was 13.5 % and PAT margin was 4.6%, this is a slight decrease from FY12 EBITDA margin of 16.2% and PAT margin of 6.6%. Total borrowings have increased from Rs. 1379.6 crores in FY12 to Rs. 1730 Crores in FY13. Tangible Net Worth of the Company in FY13 is Rs. 1013 Crores (approx.) as compared to Rs. 773 Crores in FY12. The Debt (includes all interest bearing debts) to Equity ratio for FY12 was 1.84; it has improved slightly and is at 1.71 in FY13. Total Debt has grown due to loans availed for the expansion projects and Working Capital limits which have increased in line with higher sales levels. The new projects would also be supported by additional working capital. Repayments towards the project term loans do not begin until FY14, as there is a moratorium of 6 months from the Commercial Operations Date, in respect of the projects.

ACCIL has a stretched working capital cycle. Average Receivables Days have increased from 91 in FY11 to 103 in FY12. The cash conversion cycle has increased from 153 in FY11 to 182 days in FY12.

However, tighter WC management will be important to maintain its debt levels and gearing in future.

Rating Outlook:

ACCIL and the other group companies have a rich experience in steel industry. ACCIL's capacity expansion is expected to boost the revenues for the coming years, assuming that the user industries perform normally, which is a key monitorable. The Company expects to benefit from the geographical diversification due to the Khopoli project. Consequent to the increase in capacity, ACCIL's working capital needs are expected to increase as well, and ACCIL has already applied to its bankers for the same. Timely approval and release of the enhanced limits, as also a tighter WC management to improve efficiencies and reduce interest costs, would be key rating sensitivities.

Table 2: Abridged Balance Sheet (in Rs.Cr)

Year Ended	31-Mar-10	31-Mar-11	31-Mar-12
Liabilities			
Share Capital	75.8	75.0	74.2
Reserves	302.2	486.6	698.5
Net Worth	378.0	561.6	772.7
Secured Loan	542.8	846.7	1322.7
Unsecured Loan	10.0	10.0	34.0
Total Borrowings	552.8	856.7	1356.7
Current Liabilities	19.2	50.98	69.3
Other Long Term Liabilities		.18	9.6
Deferred Liabilities	6.4	6.5	5.6
Total Liabilities	956.4	1476.0	2213.9
Assets			
Net Block	150.8	136.5	196.8
Capital Work-in-Progress	136.8	520.2	936.3
Investments	2.7	4.7	6.15
Long Term Loan & Advances		1.2	2.5
Receivables > six months		3.2	3.1
Current Assets	666.0	810.2	1069.11
Total Assets	956.4	1476.0	2213.9

Source: Company Data

Table 3: Abridged Income Statement (in Rs.Cr)

Income Statement	31-Mar-10	31-Mar-11	31-Mar-12
Net Sales (excl. other income)	1411.2	1599.1	1726.9
Other Operating Income	10.7	14.7	15.4
Total Expenditure	1222.9	1376.6	1461.9
Operating Profit	199.0	237.2	280.3
Depreciation	18.0	18.4	21.8
EBIT	181	219	258.5
Other Income	2.6	2.6	(1.4)
Interest	57.0	69.4	84.9
PBT	126.6	152.0	172.2
Tax	43.1	51.7	55.7
PAT	83.5	100.2	116.5

Source: Company Data

Table 4: Key Ratios *

Key Ratios	31-Mar-10	31-Mar-11	31-Mar-12
Debt Equity Ratio	1.46	1.56	1.78
Interest Coverage Ratio	3.49	3.42	3.30
DSCR	2.17	1.71	1.51
Tangible Networth (Rs. Cr)	377.96	561.56	772.67
Net Profit Margin	5.87%	6.21%	6.69%
ROCE	19.31%	18.37%	14.35%
Net Cash Accruals / Total Debt	0.19	0.14	0.10
Current Ratio	1.44	1.33	1.33

* Calculated using adjusted figures as per BWR workings

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