

Rating Rationale

Brickwork Ratings assigns Asian Colour Coated Ispat Limited an Issuer Rating of ‘BWR BBB+’

Issuer Rating: BWR BBB+

Outlook : Stable

Brickwork Ratings (BWR) has assigned an Issuer rating of BWR BBB+ (Pronounced BWR Triple B Plus) to **Asian Color Coated Ispat Limited**. An Issuer with this rating is considered to offer a **moderate** degree of creditworthiness.

The rating has factored, inter alia, the experience of ACCIL’s management in the steel industry, growth in revenues and profits and increasing focus on value added products. The rating is constrained by the current economic conditions, the Company’s stretched working capital cycle and moderate strain in cash flows in FY13.

BWR has essentially relied upon the audited financial results of ACCIL up to FY10 and provisional results for FY11 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 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 is currently implementing two projects: (a) expansion of the existing facilities at Bawal and (b) a greenfield facility at the Khopoli Industrial Estate, Raigarh, Maharashtra. Table 1 below summarizes the production capacity of the different facilities. ACCIL caters to Original Equipment Manufacturers in the NCR region, 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 – Production capacity at different facilities

Facility Location	Status	Product Line / Capacity (in TPA)
Bawal, Haryana	Existing	Hot Rolled Pickled Oiled (HRPO) – 260000 Cold Rolled (CR) Coils - 180000 CR Galvanised Coils - 120000 Colour Coated Sheets / Coils – 60000
Bawal, Haryana	Under implementation	CR Galvanising Line – 300,000 HR Galvanising Line – 160,000
Khopoli Industrial Estate, Maharashtra	Under implementation	HRPO – 600000 CR coils – 480000 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. Vikas Aggarwal, Managing Director, manages and oversees operations and implementation of the on-going projects. Mr. Pradeep Aggarwal, Director, manages the procurement and marketing functions of the company.

ACCIL has a strong second line of 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 has been ranked the world's fifth largest producer of crude steel in 2009 and is projected to become the world's second largest producer by 2015–2016. Steel production capacity is likely to increase to 124 million tonnes (MT) by 2011–12, from 64.4 MT in 2008-09. The domestic steel market is projected to grow at a CAGR of 10.5% between 2007 and 2012. Per capita consumption of steel in India is 47 kgs as against the world average of 180 kg, pointing to the scope for growth. Government 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% between 2011 and 2013. In absolute numbers flat steel demand is expected to grow from 22.7 MT in 2010 to 33.4 MT in 2014. Demand for galvanized steel products (plain as well as corrugated sheets) grew at a CAGR of 11.73% between FY05 and FY10 and is increasing because of good demand from end-user industries. Hot rolled galvanized steel products 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 have increased from ₹ 1287.9 crores in FY10 to ₹ 1599.1 crores in FY11, at a y-o-y growth rate of 24.2%. Sales CAGR during FY09 to FY11 is ~31%. Domestic sales formed 97% of FY11 sales. Raw material expense is the biggest cost component, and accounts for ~ 84% of sales, followed by manufacturing expenses at ~3%. Since the prices of raw materials and finished goods move in tandem, the margins of the company are relatively insulated from fluctuations in raw material cost. EBITDA margin for FY11 was 13.9% and PAT margin was 6.27%. PAT has grown at a CAGR of 30.32% over the past 3 years.

ACCIL has a stretched working capital cycle and this is reflected in the total debt levels and its cash conversion cycle. Average Payables Days for FY11 is 2.92. Average Receivables Days have increased from 73 in FY09 to 91 in FY11. The cash conversion cycle stood at 158 days.

Total borrowings have increased from ₹ 224.5 crores in FY08 to ₹ 858.9 crores in FY11. The Debt Equity ratio for FY11 was 1.57; Interest Coverage ratio at 3.21 and current ratio at 2.92 are healthy. Working capital loans have grown in line with Sales and long term loans have grown due to loans availed for the on-going projects. The total cost of the Bawal expansion project is

₹ 507 crores, funded by debt and equity in the ratio 2:1. Similarly, the total cost of the Khopoli project is ₹ 755 crores, funded by debt and equity in the ratio 3:2. The new projects would also have to be supported by additional working capital. Therefore, total debt is expected to increase further, commensurate with project debt draw-downs, as these projects near completion in FY13, before tapering off.

The Company expects the on-going projects to be operational in FY13, and contribute substantially to the Company's turnover and profits in future. However, with increased Working Capital requirements and the capex involved in the final stages of the projects, cash flows are expected to be moderately strained in FY13.

The rating is sensitive to the Company's ability to ensure timely execution of the projects and successfully manage its cash flows.

Table 2: Abridged Balance Sheet (in ₹ Cr)

Year Ended	31-Mar-08 *	31-Mar-09	31-Mar-10	31-Mar-11 (Provisional)
Liabilities				
Share Capital	18.2	27.2	75.8	75.0
Reserves	102.5	186.3	302.2	486.6
Net Worth	120.7	213.5	378.0	561.6
Secured Loan	214.5	407.6	542.8	848.9
Unsecured Loan	10.0	10.0	10.00	10.00
Total Borrowings	224.5	417.6	552.8	858.9
Current Liabilities	12.9	23.0	19.2	27.5
Deferred Liabilities	3.4	5.3	6.4	6.5
Total Liabilities	361.4	659.3	956.4	1454.4
Assets				
Net Block	113.5	155.7	150.8	136.5
Capital Work-in-Progress	5.8	25.1	136.8	520.2
Investments	0.0	0.1	2.7	5.1
Current Assets	242.2	478.5	666.0	792.6
Total Assets	361.5	659.3	956.4	1454.4

* Figures for FY08 reflect the results of operations from May 2007 and hence, are not comparable with figures of other years.

Source: Company Data

Table 3: Abridged Income Statement (in ₹ Cr)

Income Statement	31-Mar-08*	31-Mar-09	31-Mar-10	31-Mar-11
Net Sales (excl. other income)	476.1	928.9	1287.9	1599.1
Total Expenditure	412.4	786.4	1099.7	1376.6
Operating Profit	63.7	142.5	188.3	222.5
Depreciation	8.9	15.3	18.0	18.4
EBIT	54.8	127.2	170.3	204.1
Other Income	15.3	11.6	13.3	17.3
Interest	19.8	42.1	57.0	69.4
PBT	50.3	96.6	126.6	152.0
Tax	5.4	12.8	43.1	51.7
PAT	44.9	83.8	83.5	100.2

* - Figures for FY08 reflect the results of operations from May 2007 and hence, are not comparable with figures of other years.

Source: Company Data

Table 4: Key Ratios *

Key Ratios	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11
Debt Equity Ratio	1.86	1.96	1.52	1.57
Interest Coverage Ratio	3.22	3.38	3.30	3.21
DSCR	0.27	0.60	0.42	0.51
Tangible Networth (₹ Cr)	120.64	213.45	377.96	561.53
Net Profit Margin	9.4%	9.0%	6.5%	6.3%
ROCE	31.4%	25.8%	21.6%	17.3%
Net Cash Accruals / Total Debt	0.24	0.24	0.18	0.13
Current Ratio	4.45	3.87	2.97	2.92

* Calculated using adjusted figures as per BWR workings

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