

Rating Rationale

Brickwork Ratings assigns 'BWR A-' rating to the INR 338 Crore Term Loan of Asian Colour Coated Ispat Limited

Issuer Rating: BWR A-

Outlook : Stable

Brickwork Ratings (BWR) has assigned a rating of **BWR A-** (pronounced BWR Single A Minus) to the ₹ 338 crore Term Loan facilities of **Asian Color Coated Ispat Limited**. Instruments with this rating are considered to have **adequate degree of safety** regarding timely servicing of financial obligations. Such instruments carry low credit risk.

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 progress on expansion projects. The rating is constrained by the current economic conditions and the Company's stretched working capital cycle.

BWR has essentially relied upon the audited financial results of ACCIL up to FY11 and provisional results for FY12 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 green field 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 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 – 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 was 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. The domestic demand for steel is expected to grow at annual average rate of 10.3% in the next 5 years. 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) has witnessed an upward trend due to 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 of ACCIL increased from ₹ 1599 crores in FY11 to ₹ 1727 crores in FY12, reflecting a y-o-y growth of 8%. Sales CAGR between 2009 and 2012 was ~23%. 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 FY12 was 15.1% and PAT margin was 6.6%. This is a slight improvement over FY11 EBITDA margin of 13.9% and PAT margin of 6.3%. In absolute terms PAT grew from ₹ 100.2 crores in FY11 to ₹ 114.8 crores in FY12. In FY13 onwards, sales are expected to increase substantially, on the back of capacity expansion.

ACCIL has a stretched working capital cycle. Average Payables Days for FY12 are 4. 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.

Total borrowings have increased from ₹ 880.4 crores in FY11 to ₹ 1379.6 crores in FY12. The Debt Equity ratio for FY12 was 1.84, marginally up from 1.64 in FY11; Interest Coverage ratio at 3.00 and current ratio at 2.59 are healthy. Total Debt has grown due to loans availed for the on-going projects and Working Capital limits which have increased in line with higher sales levels. 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 from FY15 onwards, as per the Company's projections.

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. As of March 2012, debt of ₹ 570 crores has been utilized and equity of ₹ 404 crores has been brought in, for the 2 projects together. The expansion project at Bawal is on track to commence operations in Dec 2012. Phase I of the Company's greenfield facility at the Khopoli commenced operations in Feb 2012, while Phase II is expected to start in July 2012 and Phase III in Dec 2012.

The Company's overall performance has been good. Repayments towards the project term loans do not begin until FY14 and ACCIL has debt lines that it can draw on for completion of the projects and Working Capital needs. However, tighter Working Capital management will be important to contain its debt levels in future.

Table 2: Abridged Balance Sheet (in INR Cr)

Year Ended	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12 (Provisional)
Liabilities				
Share Capital	27.2	75.8	75.0	74.2
Reserves	186.3	302.2	486.6	696.7
Net Worth	213.5	378.0	561.6	771.0
Secured Loan	407.6	542.8	848.9	1350.6
Unsecured Loan	10.0	10.00	10.00	29.0
Total Borrowings	417.6	552.8	858.9	1379.6
Current Liabilities	23.0	19.2	27.5	59.4
Deferred Liabilities	5.3	6.4	6.5	5.6
Total Liabilities	659.3	956.4	1454.4	2215.6
Assets				
Net Block	155.7	150.8	136.5	210.2
Capital Work-in-Progress	25.1	136.8	520.2	928.3
Investments	0.1	2.7	5.1	5.5
Current Assets	478.5	666.0	792.6	1071.6
Total Assets	659.3	956.4	1454.4	2215.7

Source: Company Data

Table 3: Abridged Income Statement (in INR Cr)

Income Statement	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12 (Provisional)
Net Sales (excl. other income)	928.9	1287.9	1599.1	1726.9
Total Expenditure	786.4	1099.7	1376.6	1466.7
Operating Profit	142.5	188.3	222.5	260.2
Depreciation	15.3	18.0	18.4	21.8
EBIT	127.2	170.3	204.1	238.4
Other Income	11.6	13.3	17.3	19.4
Interest	42.1	57.0	69.4	86.6
PBT	96.6	126.6	152.0	171.2
Tax	12.8	43.1	51.7	56.4
PAT	83.8	83.5	100.2	114.8

Source: Company Data

Table 4: Key Ratios *

Key Ratios	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12
Debt Equity Ratio	1.96	1.52	1.64	1.84
Interest Coverage Ratio	3.38	3.30	3.21	3.00
DSCR	0.60	0.42	0.46	0.38
Tangible Networth (₹ Cr)	213.45	377.96	561.53	770.95
Net Profit Margin	9.0%	6.5%	6.3%	6.6%
ROCE	25.8%	21.6%	17.1%	13.2%
Net Cash Accruals / Total Debt	0.24	0.18	0.13	0.10
Current Ratio	3.87	2.97	2.78	2.59

* Calculated using adjusted figures as per BWR workings

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