

Rating Rationale

Brickwork Ratings assigns Ratings of BWR B+ for long-term and BWR A4 for short-term Bank Loan Facilities aggregating to ₹ 12 Crores of Azad Ispat India Pvt. Ltd.

Brickwork Ratings has assigned following Ratings¹ short term for Bank Credit Facilities of Azad Ispat India Pvt Ltd.

Facility	Limits (₹ Cr)	Tenure	Rating
Cash Credit	9.00	Long Term(FB)	BWR B+ (Pronounced as BWR B Plus) (Outlook Stable)
Inland LC	3.00	Short Term (NFB)	BWR A4 (Pronounced as A Four)
Total	12.00	INR Twelve Crores only	

The rating factors, inter alia, the experience of promoter in the Steel industry, good customer base and well reputed brand name “Azad Ispat”. However, the rating is constrained by low profit margins, low tangible net worth, high debt equity ratio and inadequate current ratio.

Background:

Azad Ispat India Pvt Ltd is a private company based in Bengaluru, Karnataka. It was established in 2007 by Mr. Ameer Azad. The other directors of the company are Mr. Sumeer Azad, Mr. Tanveer Azad and Mr. Musaveer Azad. The Chairman of the company, Mr. Ameer Azad, has an experience of 30 years in the same line of business. Mr. Sumeer Azad is in the same line of business for 10 years. Azad Ispat mainly deals in rolling of Steel Ingots & manufacturing TMT bars.

The major customers of the company are multinationals. The purchases for the company are made domestically. The key suppliers of the company are BEML and SAIL.

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

Industry

India has emerged as the fourth largest steel producing nation in the world, as per the figures released by World Steel Association in April 2011. Total crude steel production in India for 2010-11 was around 69 million tons and it's expected that the crude steel production in capacity in the country will increase to nearly 110 million tons by 2012-13. Further, if the proposed expansion plans are implemented as per schedule, India may become the second largest crude steel producer in the world by 2015-16. The demand for steel in the country is currently growing at the rate of over 8% and it is expected that the demand would grow over by 10% in the next five years.

Financial Performance:

During FY12, the net revenue from operations increased to ₹ 53.88 Crores from ₹ 46.40 Crores in FY11. The company's profitability is very low with operating profit margin of 2.26 per cent and net profit margin of (4.28) per cent for FY12 due to capacity underutilization. ISCR has decreased from 1.96 times in FY 11 to 1.02 times in FY 12. Current ratio has decreased from 1.69 times in FY 11 to 1.34 times in FY 12, due to increase in creditors payable. Debt equity ratio is relatively high for FY12. The tangible net-worth is low with ₹ 5.45 crores for FY12.

Rating Outlook:

The rating reflects the position of the company in the Crude Steel segment of the industry it caters to. Going forward, sustainability of operations in the face of low turnover, mitigating customer concentration risk, ability of the company to achieve its projected turn over and maintain operational efficiency will be the key rating sensitivities.

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Annexure I			
Azad Ispat India Pvt Ltd			
Statement of Profit and Loss	In ₹ Crores		
	31-03-2010 (Audited)	31-03-2011 (Audited)	31-03-2012 (Audited)
Net Sales	21.86	46.40	53.88
Other operating Income	0.35	-	-
Total Operating Income	22.21	46.40	53.88
Operating Expenses	20.45	43.45	50.92
Operating Profit Before Depreciation, Interest and Taxes	1.76	2.95	2.96
Depreciation	0.78	0.99	1.74
Operating Profit Before Interest and Tax	0.98	1.95	1.22
Interest and Finance Charges	0.97	1.50	2.90
Operating Profit Before Tax	0.01	0.45	(1.68)
Non- Operating Income(Expenses)	0.04	0.08	0.11
Profit Before Tax	0.05	0.53	(1.57)
Provision for Taxes	(0.13)	0.36	0.74
Profit After Tax	0.18	0.17	(2.31)

Annexure II			
Azad Ispat India Pvt Ltd			
Balance Sheet	In ₹ Crores		
	31-03-2010 (Audited)	31-03-2011 (Audited)	31-03-2012 (Audited)
EQUITY AND LIABILITIES			
Equity and Reserves	1.35	7.77	5.47
Equity share capital	0.01	7.90	7.90
Reserves and Surplus	(0.35)	(0.18)	(2.48)
Share Application Money	1.69	0.05	0.05
Non-current liabilities	6.04	13.51	15.51
Term loans from Banks	4.86	11.41	9.37
Loans from promoters/ Directors	1.18	1.98	5.28
Deferred Tax Liabilities	-	0.12	0.86
Current liabilities	6.35	8.30	16.08
Short-Term Borrowings from Banks	2.62	4.84	8.98
Trade Payables	3.16	2.14	4.25
Short term provisions	0.01	0.10	-
Other Current Liabilities	3.73	3.45	7.09
Total Liabilities	13.60	29.68	37.06
ASSETS			
Non-current assets	5.65	15.49	15.56
Net Fixed assets	5.65	15.49	15.56
Current assets	7.93	14.17	21.48
Inventory	5.47	10.53	15.28
Trade Receivables < Six Months	0.12	1.54	2.77
Cash and Cash Equivalents	0.07	0.02	0.04
Short-Term Loans and Advances	2.27	2.08	3.39
Total Assets	13.60	29.68	37.06

Annexure III				
Azad Ispat India Pvt Ltd				
Key Ratios		31-03-2010 (Audited)	31-03-2011 (Audited)	31-03-2012 (Audited)
Total Debt/ Tangible Net worth	Times	6.53	2.35	4.34
Interest Service Coverage Ratio	Times	1.81	1.96	1.02
Tangible Net Worth	₹ Crores	1.33	7.75	5.45
Net Profit Margin	Per cent	0.81	0.37	(4.28)
Net Cash Accruals/Total Debt	Times	0.10	0.08	0.01
ROCE	Per cent	10.33	10.85	4.35
Current Ratio	Times	1.25	1.69	1.34

Note: Ratios are based on BWR calculations