April 06, 2023

API Ispat and Powertech Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based working capital limits	40.50	40.50	[ICRA]AA- (Stable); Reaffirmed
Short term – Non-fund based limits	45.00	55.50	[ICRA]A1+; Reaffirmed
Long term / Short term – Unallocated Limit	10.50	-	-
Total	**96.00**	**96.00**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings, ICRA has considered the consolidated operational and financial profiles of API Ispat and Powertech Private Limited (API) along with four other Group companies including Real Ispat & Power Limited (RIPL; the flagship company of the Group, rated at [ICRA]AA-/Stable and [ICRA]A1+), Ajay Steels Private Limited (ASPL; rated at [ICRA]AA-/Stable and [ICRA]A1+), Shivalay Ispat and Power Private Limited (SIPPL) and Real Ispat and Energy Private Limited (RIEPL) because of the managerial, operational and financial linkages among these Group companies. RIEPL has been incorporated by the Group for a greenfield capex, and a significant fungibility of fund is likely between RIEPL and above Group companies during implementation and after commissioning of the project. Hence, ICRA has included RIEPL for a consolidated rating view.

The ratings reaffirmation continues to consider the long track record of the Real Group in the steel business as well as the Group's integrated nature of operations with operational linkages among Group companies. Besides, the presence of captive power plants (CPPs) positively impacts the cost structure. ICRA notes the proximity of the Group's plants to iron ore and coal mines and bulk import of coal through ASPL, which renders raw material security. The ratings also draw comfort from the Group's robust financial profile, reflected by healthy cash accrual, a conservative capital structure and strong debt coverage indicators on a consolidated basis. The ratings are, however, constrained by the Group's exposure to the cyclicality inherent in the steel industry. The average steel realisations remained buoyant in FY2023 after a significant rise over the previous couple of years, which is likely to support growth in the consolidated revenue and keep the Group's profits and cash accrual healthy. However, a significant increase in the overall energy cost, including the prices of non-coking coal (non-linkage) and intermediate raw materials, is likely to limit the margin expansion. ICRA notes that the Group has embarked upon a sizeable capex with an estimated cash outlay of around Rs. 550 crore, which is higher than the previously envisaged budget of around Rs. 300 crore due to widening of the scope of the project. However, the Group's strong financial flexibility, sizeable free cash available with the Group and a large buffer in the working capital utilisation mitigate funding risks of the capex. Moreover, the capex is likely to enhance backward integration, which is likely to lift the consolidated operating margin post successful commissioning and plant stabilisation. Nevertheless, the Group would remain exposed to the risks associated with execution of the project within the budgeted cost and estimated timeframe.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the Real Group would continue to maintain its business positioning as an established player in the secondary steel industry with an integrated nature of operations. The overall financial risk profile of the Group is likely to remain healthy, despite its sizeable ongoing capex.

Key rating drivers and their description

Credit strengths

Long track record of the Group in steel business – The Real Group has an experience of more than two decades in the steel manufacturing business. Its finished goods brands (GK TMT Rebar and Real Wires) have an established market presence and acceptability among large institutional clients as well as retail consumers. The Group's scale of operation grew consistently over the past few years through inorganic and brownfield expansion. It acquired API in FY2015 and subsequently added significant capacities in RIPL as well as API, which strengthened the Group's market presence.

Integrated nature of operations with operational linkages among Group companies; ongoing greenfield capex would enhance backward integration post successful commissioning – The Group primarily sells TMT bar, wire rod and wire, which are relatively value-added products. The intermediate products (sponge iron and billets) are mainly consumed internally within the Group. The Group's steel-melting operation is highly power intensive. However, power generated from the CPPs (45.5 MW including 28.5 MW through waste-heat recovery) at a cheap rate meets a significant portion of the Group's overall power requirement, reducing the overall production cost. In FY2023, the plant load factor (PLF) for API's CPP remained lower due to plant breakdown. The same is likely to impact its profitability in FY2023 to some extent. However, the CPP is running at an optimal PLF currently. The Group companies source intermediate raw materials and power from each other. The vertical integration in operation along with operational linkages among the Group companies positively impact the Group's overall cost structure. The ongoing greenfield capex would enhance the backward integration in the Group's operations and increase the overall CPP capacity. This is likely to positively impact the Group's consolidated profitability after successful commissioning and stabilisation of the project.

Proximity to domestic raw material sources and bulk import of coal enhance raw material security – The steel manufacturing facilities of the Group are in proximity to the sources of key raw materials, iron ore and non-coking coal, leading to relatively lower landed cost and raw material security. The Group procures iron ore mainly from the National Mineral Development Corporation (NMDC) and procures a portion of coal from South Eastern Coalfields Limited (SECL) through linkages. Owing to lower availability of linkage coal, the Group has reduced the volume of coal linkages, which currently account for only around 10% of its total coal requirement. In addition to procurement of coal through auctions from mines in proximity, centralised import of coal of higher quality in bulk volumes through ASPL mitigates the coal availability risks. A related entity of the Group has entered into an agreement with a secondary steel player to manage the latter's operations and procure the sponge iron and billet produced in the plant. Given the proximity of the plant to the Real Group's manufacturing facilities, this tie-up ensures availability of quality raw materials at low landed costs. The validity of the contract would end in the near term. However, the Group's dependence on external purchase of the intermediate raw materials like iron ore pellets, sponge iron and ferro alloy will reduce significantly after commissioning of the ongoing greenfield capex.

Robust financial profile of the Real Group with healthy cash accrual, conservative capital structure and strong debt coverage metrics – The Group's consolidated operating income witnessed a robust growth of 25% in FY2021 and 45% in FY2022 on the back of a sharp rally in realisations along with improvement in sales volume. The Group's consolidated net cash accrual improved to Rs. 268.3 crore in FY2022 from Rs. 207.0 crore in FY2021 and Rs. 151.8 crore in FY2020. A low debt level and a healthy tangible net worth due to strong accretion to reserves led to a low consolidated gearing of the Group (0.1 times during FY2019 to FY2022). A conservative capital structure and healthy profits at an absolute level resulted in strong debt coverage metrics of the Group. This is reflected by an interest coverage of 40.5 times (53.5 times in FY2021), total debt relative to OPBDITA of 0.5 times (0.4 times in FY2021) and net cash accrual relative to total debt of 201% (194% in FY2021) on a consolidated basis.

Healthy realisations likely to support the Group's consolidated profits and cash accruals despite high raw material prices – The average market realisation of rolled steel products continued to exhibit a double-digit growth in FY2023 after rallying sharply by around 12% in FY2021 and by around 33% in FY2022. The iron ore prices have moderated in FY2023, however, the prices of the intermediate raw materials and coal have sharply increased, restricting margin expansion of the secondary steel producers, including the Real Group, despite the realisation growth. The landed cost of imported non-coking coal currently remains at an elevated level but has softened by around 20% in Q4 FY2023. This coupled with healthy realisations are likely to support the Group's profits and cash accruals. In 9M FY2023, the Group's consolidated PBDITA stood at Rs. 265.6 crore on the net sales of Rs. 2,835.3 crore (provisional).

Credit challenges

Exposed to cyclicality inherent in the steel industry – The steel industry is characterised by its inherent cyclicality. This is likely to keep the profitability and cash flows of all the players in the industry, including the Real Group, volatile going forward.

Project risks associated with the sizeable ongoing capex – The Group has embarked upon a greenfield capex of Rs. 550 crore. The facilities under the ongoing capex include iron ore pelletisation capacity of 0.8 million tonne per annum (including beneficiation), sponge iron capacity of 650 tonnes per day, captive power plants of 45 MW (20 MW through waste-heat recovery and 25 MW coal based), a ferro alloy facility of 9 MVA and a railway siding of 2.5 km. The estimated project cost is higher than the previously envisaged cost of around Rs. 300 crore mainly on account of addition of the pelletisation facility and an increase in the CPP capacity compared to the previous plan. The commissioning of the sponge iron facility, waste-heat recovery-based power plant along with the railway siding are scheduled in March 2024, while the rest of the facilities are scheduled to be commissioned in December 2024. The capex has been undertaken in the new entity, RIEPL. The project is coming up on a land of around 350 acre located in Bhatapara, Chhattisgarh, which is owned by RIPL, and has been leased to RIEPL for 30 years. The Group has so far incurred around Rs. 130 crore for the project from internal sources. It has not yet proposed any term loan for funding of the capex. Overall debt funding, if any, would remain limited given the Group's strong liquidity position and healthy financial flexibility of the promoter Group. The consolidated capital structure and debt coverage metrics are likely to remain strong despite the large capex. After commissioning, the capex would result in enhanced value addition due to a higher degree of backward integration and an increase in captive power capacity. Nevertheless, the Group would remain exposed to the risks associated with execution of the project within the budgeted cost and the estimated timeframe.

Liquidity position: Strong

The Group's liquidity position is likely to remain **strong**. Its cash flow from operations in FY2022 was adversely impacted by a significant increase in the working capital requirement on the back of scaling up of operation and a rise in raw material prices. However, the consolidated cash flow from operations is likely to remain healthy at more than Rs. 200 crore in FY2023. Such healthy cash flow from operations along with sizeable free cash (around Rs. 124-crore free fixed deposits in API and RIPL) and undrawn working capital limits (around Rs. 243 crore as of December 2022) are likely to keep the Group's liquidity strong despite the large ongoing capex of Rs. 550 crore. The Group has incurred around Rs. 130 crore towards the capex so far. It does not have any long-term loan repayment obligation currently and its reliance on external debt for funding of the capex would remain limited due to its strong liquidity and healthy financial flexibility of the promoter Group.

Rating sensitivities

Positive factors – ICRA may upgrade the long-term rating if the Group's consolidated revenue and cash accrual register a significant growth with sustenance of healthy profit margin and an improvement in liquidity.

Negative factors – Pressure on the ratings may arise if a deterioration in steel demand and realisations affect the Group's revenues and cash accruals significantly. A sustained deterioration in ROCE below 16% on a consolidated basis may also trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Ferrous Metals Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the Group entities (as mentioned in Annexure-II) given the close business, financial and managerial linkages among them.

About the company

API Ispat and Powertech Private Limited (API), incorporated in 2004, was acquired by the Chhattisgarh-based Real Group in October 2014. The company's plant is located at the Industrial Area, Raipur, Chhattisgarh. At present, the company has facilities for manufacturing sponge iron (210,000 tpa), billet (248,400 tpa), rolled products (345,250 tpa which is being utilised mainly for manufacturing wire rod) and hard bright (HB) wire (145,250 tpa). API also has captive power plants of 25 mega watt (MW).

RIPL is the flagship company of the Chhattisgarh-based Real Group. SIPPL is a wholly-owned subsidiary of RIPL, while around 95% equity shares of API is held by RIPL. RIPL holds around 19% share in ASPL, while ASPL has a shareholding of around 15% in RIPL. The Real Group has a total capacity to manufacture sponge iron of 3,60,000 tpa, mild steel billet of 6,48,400 tpa, TMT bar/ wire rod of 7,45,250 tpa, steel wire of 2,45,250 tpa along with captive power plants of 45.5 MW. The Group has undertaken a greenfield capex under RIEPL, which is a wholly-owned subsidiary of RIPL. In July 2021, the Group sold off RPPL (name changed to Seeta Energen Private Limited), erstwhile the wholly-owned subsidiary of RIPL, having a bio-mass based power plant of 7.5 MW.

Key financial indicators (audited)

API	Standalone		Consolidated^	
	FY2021	FY2022	FY2021	FY2022
Operating income	772.1	1391.4	2224.8	3217.1
PAT	85.3	93.8	171.3	224.3
OPBDIT/OI	15.1%	10.0%	10.9%	8.1%
PAT/OI	11.0%	6.7%	7.7%	7.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.5	0.3	0.3
Total debt/OPBDIT (times)	0.6	0.5	0.4	0.5
Interest coverage (times)	63.1	50.7	53.5	40.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^ICRA estimates; Amount in Rs crore
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 06, 2023	Jun 16, 2022	Feb 14, 2022	Jan 8, 2021
1	Cash Credit	Long Term	40.50	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Letter of Credit	Short Term	55.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated Limit	Long/Short Term	-	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based (Cash Credit)	Simple
Short term – Non-Fund Based (Letter of Credit)	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	40.50	[ICRA]AA- (Stable)
NA	Letter of Credit	-	-	-	55.50	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis

Company Name	API Ownership	Consolidation Approach
Real Ispat & Power Limited	-	Full Consolidation
Shivalay Ispat and Power Private Limited	-	Full Consolidation
Ajay Steels Private Limited	-	Full Consolidation
Real Ispat and Energy Private Limited	-	Full Consolidation

Source: *Company*

Note: *Previously, ICRA had also considered Real Power Private Limited (RPPL; name changed to Seeta Energen Private Limited), erstwhile wholly-owned subsidiary of RIPL, for the consolidated rating view. However, RPPL ceases to be a part of the Group as it was divested by the Group in July 2021*

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