December 14, 2023

Ankur Udyog Limited: Ratings reaffirmed & outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based/Term loans	318.00	312.83	[ICRA]BBB; reaffirmed and outlook revised to Positive from Stable
Long term - Fund based/Cash credit	100.00	165.00	[ICRA]BBB; reaffirmed and outlook revised to Positive from Stable; assigned for the enhanced amount
Short term – Non-fund based	2.00	2.00	[ICRA]A2; reaffirmed
Long term/Short term – Unallocated	-	0.17	[ICRA]BBB (Positive)/[ICRA]A2; assigned
Total	**420.00**	**480.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings action favourably factors in the expectation of a healthy improvement in performance of the Ankur Udyog Limited (AUL) in the near-to-medium term. This is attributed to the ramp-up of the fully integrated steel unit, resulting in increased scale and cash accruals. The company's revenue surged 117% to Rs. 560 crore in FY2023 and further to Rs. 1,034 crore in 8M FY2024. It is expected to report approximately full-year revenues of Rs 1500 crore. The performance is further expected to improve in the upcoming fiscals, supported by steady volumetric growth owing to optimal utilisation of its capacities and better margins on account of absorption of overheads. The ratings also consider the company's healthy net worth position, which improved to Rs. 269 crore as on March 31, 2023 from Rs. 135 crore as on March 31, 2019. The ratings also take into account the established track record of the company in the manufacturing of polyester spun yarn. Further, the liquidity profile of the company also remains adequate despite high working capital requirements in the business.

The ratings are, however, constrained by the highly fragmented and competitive nature of the polyester yarn and steel industry. Additionally, profitability in both divisions is exposed to volatility in key raw material prices. ICRA notes that AUL's operating margins declined in FY2023 and H1 FY2024 on account of pressure on the textile industry. Nevertheless, the operating margins are expected to remain at more than 6% in FY2024. Moreover, owing to the sizeable debt-funded capex, the company's leverage has increased, and coverage metrics moderated in FY2023. ICRA expects the same to start improving from FY2025, with a healthy ramp-up of operations and scheduled repayment of term loans.

Key rating drivers and their description

Credit strengths

Healthy improvement in revenues on account of successful commissioning of steel plant and strong capacity utilisations – The company has successfully commissioned its steel unit and its full commercial production started on December 14, 2022. The company has an installed capacity of 212,500 metric tonnes (MT) for sponge iron, 300,000 MT for billets and 291,000 MT for TMT bars. Now the unit has been fully stabilised and the plant is running at a healthy capacity utilisation level of 90% for sponge iron and billets, and 80% for TMT bars. With this, the company reported a healthy growth of 117% in revenues to Rs. 560 crore in FY2023 (with five months of steel operations) from Rs. 258 crore in FY2022. Further, in the current fiscal, in 8M FY2024, the company reported a turnover of Rs. 1,034 crore. With this trend, the company is expected to report a turnover of more than Rs. 1,500 crore for the full year FY2024.

Established track record in man-made yarn spinning and previous experience of promoters in the steel industry – Incorporated in 1996, the company is involved in manufacturing polyester yarn and polyester viscose yarn. The company benefits from the extensive experience of its promoters in the sector, which together with the company's established track record of operations, helps it in attracting repeat orders from its customers. Besides, the promoters have previous experience in the steel industry, which aided them in ramping up the steel division. Under the steel division, the company reported healthy revenues of Rs. 900 crore in 8M FY2024.

Healthy net worth position and adequate coverage metrics – Over the years, AUL's performance remained comfortable, driven by steady earnings and no major debt-funded capital expenditure incurred. Given this, the company's net worth improved to Rs. 269 crore as on March 31, from Rs. 135 crore as on March 31, 2019. However, owing to the recently commissioned sizeable debt-funded capex, the company's coverage metrics moderated in FY2023, although it remained adequate with an interest cover of 3.2 times for FY2023. ICRA expects the same to start improving from FY2025, with a healthy ramp-up of operations and scheduled repayment of term loans.

Credit challenges

Decline in operating margins in FY2023 and H1FY2024 – Owing to the pressure on the textile industry, the operating margins under the textile division declined to 10.8% in FY2023 and 8.4% in H1 FY2024 from 22.0% in FY2022. Under the steel division, the company reported operating margins of 4.0% in FY2023 (the first year of operations). In the current year, with the ramp-up of operations, the operating margins improved to 5.1% in H1 FY2024 despite remaining on the lower side. However, from FY2025 onwards, the margins under the steel division are expected to improve to around 9-10%. On a company level, the operating margins are expected to remain at more than 6% in FY2024. Further in FY2025 and FY2026, the operating margins are expected to improve to more than 8% levels.

Increased leverage because of debt-funded capex – AUL availed a term loan of Rs. 298 crore in FY2021 for its sizeable greenfield capital expenditure to set up an integrated steel plant, along with a captive power plant. Further, the company availed one more term loan of Rs. 20 crore in FY2023 to support the funding requirement. This resulted in the moderation of capitalisation and coverage indicators. The gearing of the company increased to 1.6 times as on March 31, 2023, from 0.4 times as on March 31, 2021. The coverage indicators of the company are adequate with an interest coverage ratio of 3.2 times for FY2023, though weakened from the previous years. However, the financial risk profile of the company is expected to improve from FY2025 onwards with a healthy ramp-up of operations and scheduled repayment of term loans.

Vulnerability to movement in raw material prices in textile and steel divisions – AUL derives most of its revenues from the sales and manufacturing of polyester spun yarn. The man-made yarn industry is intensely competitive owing to the commoditised nature of products and the fragmented nature of the industry, which puts pressure on the company's profitability metrics. ICRA notes that AUL's operating margins declined in FY2023 and H1 FY2024 on account of pressure on the textile industry. Further, the company depends on external sources to meet raw material requirements for its steel unit. This would keep the company's profitability in the steel division exposed to volatility in raw material prices such as iron ore, coal and ferro alloys.

Liquidity position: Adequate

AUL's liquidity position is expected to remain adequate, supported by the growth in earnings from operations and unutilised lines of credit. The liquidity would be supported by steady cash accruals of more than Rs. 60 crore expected in FY2024. Moreover, the company has received an enhancement of Rs. 50 crore in its working capital limits, providing further comfort. The company has repayment obligations of about Rs. 23 crore in FY2024, however, ICRA expects its cash accruals to be sufficient for servicing the debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade AUL's ratings if it is able to report healthy growth in its scale of operations while registering improvement in operating margins, leading to healthy debt coverage metrics and a comfortable liquidity position.

Negative factors – Given the positive outlook, the rating downgrade is unlikely in the near term. The outlook could be revised to Stable if there is pressure on the liquidity on account of a decline in profitability or an increase in the working capital intensity on a sustained basis. Specific metrics which could lead to the ratings downgrade include a DSCR of less than 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Spinning) Rating Methodology for Ferrous Metals entities
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company

Note (for analyst reference only):

About the company

Incorporated in 1996, Ankur Udyog Limited (AUL) is promoted by Mr. Ashok Jalan and his family. AUL manufactures 100% polyester and viscose-polyester blended yarn (15-30 counts) at its plant in Gorakhpur, Uttar Pradesh. The company has a capacity to manufacture 17,625MT of yarn, with 65,664 spindles installed. It derives most of its revenues from Ludhiana, Punjab, which is known as the knitting hub of northern India. The company has set up a fully integrated greenfield steel plant with a capacity of 2.91 lakh tonnes per annum through the DRI route, along with a 30-megawatt (MW) captive power plant in Gorakhpur, at a project cost of Rs. 542 crore. The company has successfully commissioned its steel unit and the commercial production has started fully from December 14, 2022.

Key financial indicators (audited)

	FY2022	FY2023	H1FY2024*
Operating income	258.4	560.4	724.4
PAT	46.3	22.6	26.0
OPBDIT/OI	21.7%	6.6%	5.6%
PAT/OI	17.9%	4.0%	3.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.9	-
Total debt/OPBDIT (times)	5.1	11.3	-
Interest coverage (times)	260.1	3.2	2.1

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *provisional*

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 14, 2023	Dec 27, 2022	Sep 13, 2021	Jul 21, 2020
1	**Term loans**	Long term	312.83	312.83	**[ICRA]BBB (Positive)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Cash credit**	Long term	165.00	-	**[ICRA]BBB (Positive)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	**Non-Fund based**	Short term	2.00	-	**[ICRA]A2**	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	**Unallocated**	Long term and short term	0.17	--	**[ICRA]BBB (Positive)/[ICRA]A2**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	Simple
Short Term-Non-Fund Based	Very Simple
Long-term/Short -term – Unallocated	NA

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	Term loan	FY2020	-	June 2031	312.83	[ICRA]BBB (Positive)
NA	Cash credit	-	-	-	165.00	[ICRA]BBB (Positive)
NA	Non-fund based	-	-	-	2.00	[ICRA]A2
NA	Unallocated	-	-	-	0.17	[ICRA]BBB (Positive)/[ICRA]A2

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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