ICRA

August 22, 2024

Agni Steels Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	129.36	101.34	[ICRA]A- (Negative); reaffirmed and outlook revised from Stable
Working capital facilities	200.00	200.00	[ICRA]A- (Negative); reaffirmed and outlook revised from Stable
Letter of credit	10.00	10.00	[ICRA]A2+; reaffirmed
Unallocated limits	-	28.02	[ICRA]A- (Negative); reaffirmed and outlook revised from Stable
Total	**339.36**	**339.36**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating of Agni Steels Private Limited (ASPL) reflects continued pressure on its credit metrics due to elevated debt levels and lower-than-anticipated improvement in operating profit margins. ASPL's total debt to operating profits (TD/OPBDITA) weakened in FY2023 to 4.6 times (against 2.0 times in FY2022) due to the debt-funded purchase of 21 MW of windmill assets. In FY2024, the leverage indicator decreased to 3.6 times; however, the improvement was less than expected. This was due to elevated working capital borrowings and lower-than-anticipated improvement in the operating margins, driven by the contraction of TMT-scrap spreads and an increase in director remuneration during the year.

The interest coverage ratio also moderated to 3.3 times in FY2024 compared to 5.7 times in FY2023. As per ICRA's estimates, while the leverage is expected to improve in FY2025 with scheduled debt repayments and an anticipated improvement in operating margins, it is likely to remain elevated for the current rating level. Meaningful improvement in leverage will remain a key monitorable for ASPL going forward.

The ratings continue to favourably factor in the extensive experience of ASPL's promoters and the company's established operational track record. ASPL's AGNI TMT brand enjoys a strong market position in Tamil Nadu and Kerala due to its quality specifications, allowing the company to command premium pricing compared to regional competitors, which supports profitability. ICRA also believes that ASPL's premium pricing can enable profitable operations even during periods of significant industry downturns.

In FY2024, the TMT sales volume witnessed a significant increase of ~23%, supporting the overall revenue growth of ~12%, despite a significant correction in TMT realisation. While the operating margin benefitted from structural cost-savings due to an increase in the proportion of captive power procurement to 39% (against 14% in FY2023), the contraction in TMT-scrap spreads resulted in a steady operating margin of ~6.1% in FY2024 compared to ~6% in FY2023. For FY2025, ASPL's revenues are expected to remain healthy supported by high capacity utilisation levels, and operating margins are expected to improve to more than 7%, driven by the normalisation of TMT-scrap spreads and continued benefits from the increased renewable captive power capacity.

The ratings remain constrained by ASPL's high geographical concentration risk, with a significant portion of its revenues derived from Tamil Nadu and Kerala, and the intense competition in the fragmented and commoditised long steel market, partly limiting its pricing flexibility. The ratings further factor in the inherent cyclicality in the steel industry and ASPL's susceptibility to raw material price volatility and end-product realisations. Additionally, ASPL's elevated payouts to promoters negatively impacted business return indicators, though these indicators remain comfortable on an absolute basis.

Key rating drivers and their description

Credit strengths

Significant experience of the management and operational track record of the company – ASPL was established in 1989 and has been involved in the business of metal and allied products since then. Given the long experience of the promoters in the industry and ASPL's established operational track record, the company has been able to develop a wide network of suppliers and customers.

Steady earnings in FY2024, however, leverage remains elevated – In FY2024, ASPL's revenues had a 12.6% growth, amounting to Rs. 1,060 crore (compared to Rs. 942 crore in FY2023) driven by a 23.5% increase in sales volumes of 23.5%, which more than compensated for the moderation of TMT prices during the fiscal year. While the operating margin was supported by structural cost-savings from the increase in the proportion of captive power procurement to 39% (against 14% in FY2023), the contraction in TMT-scrap spreads, resulted in a steady operating margin of ~6.1% in FY2024 compared to ~6% in FY2023. ASPL's total debt to operating profits weakened in FY2023 to 4.6 times (against 2.0 times in FY2022). In FY2024, the leverage indicator decreased to 3.6 times; however, the improvement was less than expected. For FY2025, ASPL's revenues are expected to remain healthy, supported by high capacity utilisation levels, and operating margins are expected to improve to more than 7%, driven by the normalisation of TMT-scrap spreads and continued benefits from the increased renewable captive power capacity.

Strong brand presence enables ASPL to enjoy premium pricing – ASPL markets its rebars primarily in Tamil Nadu and Kerala under the AGNI TMT brand. The brand enjoys an established position in the markets due to its quality specifications. The strong brand presence enables the company to command premium pricing compared to other regional players, thereby supporting profitability.

Moderate backward-integrated plant with captive facilities for sponge iron, MS billets and power - ASPL remains moderately backward integrated with manufacturing capacities for sponge iron, which partly serves as feedstock to make billets. The manufactured billets, which meet a large part of its captive requirements, are then subjected to rolling to produce TMT bars of desired profiles. In addition, a part of its total power requirement is met through captive sources, thus positively impacting the cost structure.

Credit challenges

Elevated leverage indicators following debt funded acquisition in FY2023, with slower than anticipated reduction – ASPL's total debt to operating profits (TD/OPBDITA) weakened in FY2023 to 4.6 times (against 2.0 times in FY2022) due to the debt-funded purchase of 21 MW of windmill assets. In FY2024, the leverage indicator decreased to 3.6 times; however, the improvement was less than expected. This was due to elevated working capital borrowings and lower than anticipated improvement in the operating margins driven by the contraction of TMT-scrap spreads and an increase in director remuneration during the year. The interest coverage ratio also witnessed moderation to 3.3 times in FY2024 compared to 5.7 times in FY2023. As per ICRA estimates, while the leverage is expected to improve in FY2025 with scheduled debt repayments and an expected improvement in operating margins, it is likely to remain elevated for the current rating level. Meaningful improvement in the leverage will remain a key monitorable for ASPL, going forward.

High geographical concentration risk – ASPL's products are mainly sold in Tamil Nadu and Kerala, exposing the company to high geographical concentration risk. Around 90% of the company's operating income is derived from sales in Tamil Nadu and Kerala, with the remaining income from Karnataka and Andhra Pradesh.

Intense competition from the highly fragmented and commoditised steel market – The long steel manufacturing business is characterised by intense competition due to low product differentiation and limited entry barriers, which limit the pricing flexibility of players, including ASPL.

Exposure to cyclicality inherent in the steel industry – The domestic steel industry is cyclical in nature, likely leading to volatile cashflows for steel players, including ASPL. The company's operations are vulnerable to adverse changes in the demand-supply dynamics in the construction sector, especially in Tamil Nadu and Kerala. However, ICRA notes that ASPL's premium pricing has enabled it to report profitable operations even during periods of deep industry downturn, such as the metals meltdown in FY2016, when the company reported a modest net profit of Rs. 4.71 crore.

Susceptibility of margins to raw material price fluctuations and foreign exchange rate fluctuation risks – ASPL's operations are raw material intensive, with raw materials and consumables accounting for over 65% of its operating income over the last three fiscals. The company imports a portion of its scrap requirement, further exposing it to fluctuations in exchange rates.

Large payouts to promoters impact business return indicators – ICRA notes that ASPL's payouts to promoters have remained elevated in the past and continued to be high through FY2024. Such large payouts, in the form of director remuneration, adversely impact business return indicators, although these indicators remained comfortable on an absolute basis.

Liquidity position: Adequate

ASPL's liquidity position has been assessed as adequate, with undrawn working capital lines of ~Rs. 75 crore as on June 30, 2024, and steady fund flow from operations of Rs. 45-55 crore/annum expected between FY2025 and FY2026. The company has no major capex plans and scheduled debt repayment obligations of ~Rs. 27.6 crore in FY2025 and Rs. 12.5 core in FY2026, which can be comfortably met through internal cash sources.

Rating sensitivities

Positive factors - Given the negative outlook, the ratings upgrade is unlikely. ICRA may revise the outlook to Stable if ASPL is able to improve the profitability levels and a meaningful reduction in the leverage for the company.

Negative factors - Pressure on ASPL's ratings could arise if a decline in profitability or a rise in the debt-funded capex or investment results in a deterioration in the liquidity position and credit indicators. Specific credit metrics that may lead to ratings downgrade include Total Debt/OPBIDTA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate credit rating methodology Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of ASPL

About the company

ASPL manufactures and sells TMT (thermo mechanically treated) bars under the brand Agni TMT. The company has a TMT manufacturing capacity of 2,19,000 MTPA and is backward integration with production capabilities for sponge iron and billets, which are used in TMT bar production. ASPL's manufacturing facilities are in Erode, Tamil Nadu. Incorporated in 1989, ASPL is jointly promoted by Mr. M Chinnasami, Mr. R Krishnamoorthy and Mr. K Thangavelu, who are first-generation entrepreneurs.

Key financial indicators (audited)

ASPL standalone	FY2023	FY2024*
Operating income	941.7	1,059.9
PAT	28.7	33.3
OPBDIT/OI	6.0%	6.1%
PAT/OI	3.0%	3.1%
Total outside liabilities/Tangible net worth (times)	1.7	1.3
Total debt/OPBDIT (times)	4.6	3.6
Interest coverage (times)	5.7	3.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs	Aug 22, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	200.00	[ICRA]A- (Negative)	-	-	13-JUL-2023	[ICRA]A- (Stable)	25-APR-2022	[ICRA]A- (Stable)	15-JUL-2021	[ICRA]BBB+ (Stable)
Long term-term loan-fund based	Long Term	101.34	[ICRA]A- (Negative)	-	-	13-JUL-2023	[ICRA]A- (Stable)	25-APR-2022	[ICRA]A- (Stable)	15-JUL-2021	[ICRA]BBB+ (Stable)
Short term-letter of credit-non fund based	Short Term	10.00	[ICRA]A2+	-	-	13-JUL-2023	[ICRA]A2+	-	-	-	-
Long term-unallocated-unallocated	Long Term	28.02	[ICRA]A- (Negative)	-	-	-	-	-	-	-	-
Interchangeable Limits (Sublimit of Bills Discounting)	short term	-	-	-	-	-	-	25-APR-2022	[ICRA]A2+	15-JUL-2021	[ICRA]A2
Bills Discounting	short term	-	-	-	-	-	-	25-APR-2022	[ICRA]A2+	15-JUL-2021	[ICRA]A2
Untied Limits	Long-term/ Short-term	-	-	-	-	-	-	-	-	15-JUL-2021	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Working capital facilities	Simple
Letter of credit	Very simple
Unallocated limits	Not applicable

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 loans**	March-2019	NA	FY2029	101.34	[ICRA]A-(Negative)
NA	**Cash Credit**	-	-	-	200.00	[ICRA]A-(Negative)
NA	**Letter of Credit**	-	-	-	10.00	[ICRA]A2+
NA	**Unallocated**	-	-	-	28.02	[ICRA]A-(Negative)

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

ANALYST CONTACTS

Girishkumar Kashiram Kadam
+91-22-61143441
girishkumar@icraindia.com

Vikram V
+91 040 6939 6410
vikram.v@icraindia.com

Sumit Jhunjhunwala
+91-33-71501111
sumit.jhunjhunwala@icraindia.com

Arpit Arora
+91 124 4545 388
arpit.arora@icraindia.com

Ruchi Hota
+91 22 6169 3379
ruchi.hota@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches