

November 29, 2024

Aarti Steel International Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-cash credit-fund based	130.00	130.00	[ICRA]A+ (Stable); Reaffirmed
Short term-others-non fund based	40.00	40.00	[ICRA]A1; Reaffirmed
Long term-term loan-fund based	33.91	126.63	[ICRA]A+ (Stable); Reaffirmed/Assigned for enhanced amount
Long term / short term- unallocated-unallocated	0.09	0.37	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed/Assigned for enhanced amount
Total	204.00	297.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of Aarti Steel International Limited (ASIL) continues to consider the long track record of the promoters in the steel business as well as the presence in the manufacturing of value-added products (rolled carbon, alloy steel, spring wire and tyre bead wire) commanding better realisation along with a partially integrated nature of operations that supports the overall operating margin of the entity. The rating also considers ASIL's status as an approved supplier of steel products to the ancillaries of major automobile original equipment manufacturers (OEMs) and tyre manufacturers, which reduces counterparty risk and provides revenue visibility. In FY2024, while the financial performance was impacted owing to decline in realisations, which impacted the operating margin of the entity. However, the coverage indicators continued to remain healthy owing to a decline in the total debt of the entity. The liquidity position also remained comfortable with cushions available in the working capital limits. In the current fiscal, the financial performance is expected to be similar compared to the previous fiscal, along with healthy debt coverage indicators. In H1 FY2025, the company has already reported an operating income of Rs 673 crore and OPM of 11.4%.

While reaffirming the ratings, ICRA also considers the planned capital expenditure of Rs 100 crore to set up the solar power capacity in the next fiscal. The same is expected to be funded by a debt-equity mix of 2:1. However, once operationalised the solar power is expected to provide significant cost savings in the overall power and fuel expenses, thus supporting the margins. The capex in the wire division has already been concluded, resulting in capacity enhancement of 18000 mtpa. While the same was debt-funded, the company has drawn only Rs 87 crore compared to sanctioned of Rs 112 crore. Also, the company has prepaid certain earlier term loans in the current fiscal, thus supporting the overall debt-coverage indicators. The total debt/OPBDITA is likely to remain around 1.1-1.3 times in FY2025 and FY2026, supported by healthy accruals and limited borrowings compared to its net worth.

The ratings, however, remain constrained by the company's exposure to the cyclical nature in the automobile sector from which ASIL mainly derives its revenues, and the inherent risks of price fluctuations and cyclical nature in the steel industry. ICRA also notes ASIL's highly working capital-intensive nature of operations with significant receivables and stocking requirements with limited creditors, impacts its liquidity to an extent. The company will remain exposed to the project risks associated with its planned debt-funded capex towards captive power generation plant although successful execution of the capacity expansion project in the current fiscal provides comfort to some extent. Further, the promoters' previous experience in such capex also mitigates the execution risk of the project to an extent, however, the company's ability to conclude the project within the budgeted cost and estimated timeframe will remain a key monitorable from the credit perspective.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's financial profile will remain healthy with strong earnings from operations, a conservative capital structure and comfortable debt coverage metrics despite the planned debt-funded capex.

Key rating drivers and their description

Credit Strengths

Long operational track record and experience of promoters in the steel business – The Aarti Group has been involved in steel manufacturing for more than four decades, since commissioning of the plant in Ludhiana in 1979. Such a long operational track record of the Group and the promoter's experience in steel business lend operational strength to ASIL.

Established association with reputed players in automotive industry and track record of repeat business—The company's plant in Ludhiana is approved by major automobile OEMs and leading tyre manufacturers in northern India for supplying rolled steel products and wire. The company supplies rolled carbon and alloy steel products, which are used in critical automobile parts like engines, axels etc. and in two-wheeler components. The company also supplies spring wire to automobile ancillaries and tyre bead wire to tyre manufacturers. The Group's established association with the reputed clients and product quality have led to repeat business over the years.

Presence of value-added products and partially integrated operation positively impact margins—The rolled products manufactured by ASIL are made of carbon and alloy steels, which are relatively value-added items used in automobile parts. The steel wire manufactured by the company is used as spring wire in automobiles and as tyre bead wires. The value-added products keep the average realisations healthy. However, the absence of any captive power plant restricts translating of entire benefit to its profits. It has partial backward integration although since the ingots/billets manufactured by the company are almost entirely consumed internally to produce rolled products, providing some cost advantage. Healthy realisations due to value-added products and partial backward integration positively impact ASIL's operating margin, which remained in the range of 10-13% over the last three fiscals.

Healthy financial risk profile characterised by a conservative capital structure and strong debt coverage metrics— ASIL's debt level remained limited compared to its net worth, leading to a low gearing of 0.2 times as on March 31, 2024. The conservative capital structure coupled with healthy profits led to strong debt coverage indicators, as reflected by an interest coverage of 14.0 times (14.7 times in FY2023), total debt relative to OPBDITA of 0.9 times (1 times in FY2022 and 0.9 times in FY2023) and net cash accrual relative to the total debt of 79% (85% in FY2023) in FY2024. Going forth, the leverage and coverage are expected to remain healthy even with the addition of a new term loan.

Credit Challenges

Exposed to cyclicity in the automobile sector, the key contributor to ASIL's revenues— ASIL derives the major portion of its revenue from automobile ancillaries. Hence, the company remains exposed to the cyclicity associated with the automobile sector, as reflected by the volatility in its revenue in the past years. Nevertheless, the company's products find use in various types of automobiles like commercial vehicles, passenger vehicles, tractors, two-wheelers and are also used in tyres, reducing the product concentration risks to an extent.

Vulnerable to price fluctuation risks and cyclicity inherent in the steel industry— The company consumes steel scrap as the main raw material in addition to sponge iron, pig iron, ferro alloys and other metals used to manufacture ingots/billets. It also purchases wire rod to produce wire. The volatility in the raw material prices and cyclicity inherent in the steel industry may impact the company's profits and cash accruals.

High working capital intensity of operations— The company has significant receivables and stocking requirements, and its creditors remain limited. Hence, ASIL's working capital intensity of operations remained high, as reflected by the net working capital relative to the operating income of 30-32% over the last three fiscals. Hence, its incremental working capital

requirement to scale up operations would remain high. Nevertheless, the company has a significant cushion in its working capital utilisation with an average utilisation of less than 30% in the last fiscal.

Project risks associated with the planned capex— The company has planned the construction of a 29 MW solar power plant captively. The total cost of the capex has been estimated at ~Rs. 100 crore. The capex will be funded by a 2:1 debt equity ratio. The project has been scheduled to be concluded by end of the next fiscal bringing in benefits from FY2027 onwards. The company's capital structure and debt coverage metrics are likely to remain comfortable despite the planned debt-funded capex. However, any significant time or cost overrun in the project may exert pressure on ASIL's cash flows. Nevertheless, the promoters' previous experience in such capex mitigates the execution risk to an extent. Also, while the project risk in the capacity enhancement of the wire division has been mitigated with the commissioning of operation in November 2024, the stabilisation risk remains.

Liquidity position: Adequate

ASIL's liquidity position is expected to remain adequate. Its cash flow from operations improved significantly in FY2024 aided by better asset sweating and lower input prices. The company's cash flow from operations is expected to be comfortable in FY2025 at close to Rs. 60 crore and remain firm in the medium term. Its debt repayment obligation is around Rs. 14 crore in FY2025 but would increase subsequently due to the planned debt-funded capex. The capex will entail a cash outlay of around Rs. 100 crore in FY2026, to be funded by a 2:1 debt equity ratio. The company's expected healthy cash flow from operations and considerable undrawn working capital (Rs. 82 crore as of Sept 2024) would however, ensure adequate fund availability for the capex and debt-repayments obligations.

Rating sensitivities

Positive factors – Healthy growth in the company's revenues and profits leading to an improvement in the debt coverage matrices and its liquidity position on a sustained basis may result in an upgrade of the ratings.

Negative factors – The ratings may be downgraded if a sustained decline in revenues or profitability of the company adversely impacts its debt protection metrics and liquidity. The specific credit metrics, which may trigger a rating downgrade include total debt/OPBDITA of more than 1.8 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	For arriving at the ratings, ICRA has considered the standalone financials of the company.

About the company

Incorporated in December 2020, Aarti Steel International Limited (ASIL) is a part of the Aarti Group promoted by the Ludhiana-based Mittal family. ASIL's plant in Ludhiana, Punjab was earlier under Aarti Steels Limited (ASL). However, the same has been demerged to ASIL as a part of the Aarti Group's restructuring. Mr. Shiv Parshad Mittal is the promoter of the Aarti Group. His sons, Mr. Rajeev Mittal and Mr. Mahesh Mittal, are managing ASL and ASIL, respectively, after the Group restructuring. The regulatory approval for the restructuring was received through NCLT's judgment in February 2023 and the formal order in March 2023. ASIL's plant in Ludhiana has the capacity to manufacture billets and ingots of 1,40,000 tonnes per annum (TPA), rolled products of 3,40,000 TPA, and steel wires of 52,000 TPA (currently under process of enhancement to 82,000 TPA). The company manufactures carbon and alloy steel, which are mainly sold to automobile ancillaries. The steel wire manufactured by the company is used as spring wire and tyre bead wire.

Key financial indicators

ASIL Standalone (Audited)	FY2023	FY2024
Operating income	1334.1	1350.5
PAT	97.9	76.0
OPBDIT/OI (%)	12.0%	9.7%
PAT/OI (%)	7.3%	5.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.9	0.9
Interest coverage (times)	14.7	14.0

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.

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					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Nov 29, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	130.00	[ICRA]A+ (Stable)	02-AUG-2023	[ICRA]A+ (Stable)	-	-	-	-
Short term-others-non fund based	Short Term	40.00	[ICRA]A1	02-AUG-2023	[ICRA]A1	-	-	-	-
Long term-term loan-fund based	Long Term	126.63	[ICRA]A+ (Stable)	02-AUG-2023	[ICRA]A+ (Stable)	-	-	-	-
Long term / short term-unallocated-unallocated	Long Term/ Short Term	0.37	[ICRA]A+ (Stable)/ [ICRA]A1	02-AUG-2023	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term Loans	Simple
Long term - Fund based -Cash Credit	Simple
Short term - Non-fund based limits	Very simple
Long term / Short term – Unallocated limit	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 Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund based-Term Loan-1	Jul-2021	-	Sep-2030	112.00	[ICRA]A+ (Stable)
-	Fund based-Term Loan-2	Sep-2021	-	Sep-2030	0.43	[ICRA]A+ (Stable)
-	Fund based-Term Loan-3	Feb-2023	-	Sep-2030	14.20	[ICRA]A+ (Stable)
-	Fund based / Cash Credit	-	-	-	130.00	[ICRA]A+ (Stable)
-	Non-fund based Limits	-	-	-	40.00	[ICRA]A1
-	Unallocated limits	-	-	-	0.37	[ICRA]A+ (Stable)/ [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: Not applicable

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Branches



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