October 17, 2022

A One Ispat Private Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	9.00	4.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Fund based- Working Capital Facilities	25.00	30.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long Term- Unallocated	1.00	1.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the rating factors in the increased scale of operations and improved financial profile of A One Ispat Private Limited (AOIPL) in FY2022, supported by the rally in steel prices and expected continuation of healthy performance in the current fiscal as well, on account of sizeable cost savings emanating from the firming up of cost-competitive power purchase agreements (PPA) accumulating to 19 MW. ICRA notes that while steel prices have moderated from the all-time highs of April 2022 following the global uncertainty, the structural cost savings from such low-cost power procurements would gradually reflect in AOIPL's earnings in FY2023 and FY2024. Early indications of the benefits accruing from low-cost power have partly started to get reflected in the Q1 FY2023 performance, when, despite a challenging operating environment, the company reported an OPBIDTA[1] of Rs. 20 crore on a provisional basis (against Rs. 34.96 crore in FY2022 and Rs. 28.67 crore in FY2021). Moreover, AOIPL's scale of operations and financial profile are expected to remain adequately supported by the ramp-up in its production in the second half of the year, driven by the Government's thrust on infrastructure projects and pick-up in demand from the end-user industries such as real estate and construction.

The low working capital intensity and prudent capital allocation policy further supports the rating upgrade. AOIPL's working capital intensity of operations (net working capital vis-à-vis operating income) continued to be low at 6.44% in FY2022 (6.76% in FY2021), supported by its low receivable and inventory holding periods. The rating continues to draw comfort from the extensive experience of the promoters in the steel industry. ICRA notes that AOIPL's competitive capital cost and comfortable leverage levels have helped it to report net profits across all business cycles, reflecting its resilience to cyclical downturns. In addition, its financial profile remains comfortable, characterised by a gearing of 0.33 times as on March 31, 2022, healthy interest coverage and return on capital employed (RoCE) of 15.18 times and 38.19%, respectively, in FY2022.

The rating is, however, constrained by the company's margins being susceptible to the volatility in raw material prices along with the company's exposure to the inherent cyclicality in the steel industry, which keeps its profits and cash flows volatile. Intense competition in the fragmented and commoditised steel industry limits the pricing flexibility of the company. The rating is also constrained by the company's high geographical and client concentration risks, with customers largely restricted to Bengaluru, Karnataka. AOIPL's top-three clients accounted for ~59% of the overall sales between FY2020 and FY2022, and loss of any one of its key clients can have an adverse impact on the business performance. AIOPL's moderate backward integration, with capacities to manufacture MS billets and TMT also constrains the company's rating.

[1] *OPBIDTA: Operating profit before depreciation, interest, taxes and amortisation*

The Stable outlook on the long-term rating is supported by the healthy domestic steel demand, prudent working capital management, and comfortable credit metrics of the company.

Key rating drivers and their description

Credit strengths

Ability to report net profits across business cycles – The company has reported net profits across all business cycles, reflecting its resilience to cyclical downturns. In addition, the competitive capital cost of the steel-making assets and associated low capital charges, favourably support the net profit margin.

Structural cost savings emanating from cost-competitive power purchase agreements - The company has entered a PPA with the Radiance Group for sourcing 10 MW (~1.82 crore units) of solar power at a landed tariff of Rs 4.45 per unit, which is estimated to generate savings of Rs. 4.5 crore per annum (p.a), following the expected commissioning of the plant in March 2023. The contract with Radiance is for 25 years from the Commercial Operation Date (COD) as per the terms of the Letter of Award (LOA). Apart from this arrangement, the company is also under discussion with Tata Power for procuring 10-MW solar power at an estimated tariff of Rs. 3.90 per unit, which is yet to be finalised. In addition, the company has recently started to draw external power from two more sources (i.e., BIOP and Khandler-hydro power) aggregating to 8-MW power, which is expected to result in savings of around Rs. 6-7 crore p.a. ICRA understands that the agreement with BIOP started in May 2022 and is expected to extend till May 2025, whereas the contract with Khandaleru (Hydro Plant) extends from February 2022 till March 2023 and will be renewed annually on mutual negotiations. ICRA estimates that the overall savings will be of Rs. 10-11 crore p.a from these power purchase agreements.

Comfortable financial risk profile, aided by low working capital intensity –. The working capital intensity of AOIPL remained low at 6.44% in FY2022, owing to its low receivable and inventory holding periods. In this context, ICRA notes that as the company's plant is in Hindupur, which has adequate availability of scrap/sponge iron for crude steel production, AIOPL's inventory holding period remains low, benefitting from a low lead time for procurement. A low working capital intensity helped in limiting its dependence on external borrowings, thereby, strengthening its capital structure and coverage indicators. As on March 31, 2022, the debt mainly comprised of short-term borrowings pertaining to cash credit utilisation. The overall working capital limits sanctioned to the company was increased to Rs. 40 crore in September 2022, and the average utilization stood low at 47% from April 2021 to September 2022. The key credit metrics stood comfortable, with interest coverage of 15.18 times, Total Outside Liability / Tangible Net Worth of 0.81 times, and debt service coverage ratio (DSCR) of 4.3 times in FY2022, and given the prudent growth plans, going forward, the company's credit indicators are expected to remain at comfortable levels.

Prudent capital allocation and conservative growth plans - The company has followed a calibrated approach for capital investment as evidenced in the past, thus, resulting in a healthy Return on Capital Employed (RoCE) of 38%-45% during FY2020 to FY2022. The company's previous capacity expansion took place in FY2019, and going forward, apart from cost-saving initiatives, the company does not have any growth plans, which reflects the management's conservative approach to growth opportunities.

Favourable demand outlook for steel industry - The steel sector witnessed a revision in outlook to Stable from Positive, due to the elevated input-cost pressures along with steel price corrections, following the imposition of export duty. Consequently, ICRA has revised the industry's operating profit estimate downwards by 30% over the earlier forecasts made before the Russia-Ukraine conflict. However, supported by the Government's infrastructure capex plans, the domestic steel demand is expected to grow at a healthy 7-8% in FY2023, which should support adequate capacity levels of domestic steel mills, including AOIPL.

Credit challenges

Susceptibility of margins to raw material fluctuations; exposure to volatile profits given the cyclicality inherent in the steel industry - The steel industry is cyclical in nature, which is likely to result in volatile cash flows for steel players, including AOIPL. The cash flows and profitability of the company would remain volatile, largely because of fluctuations in spreads emerging from the mismatch in price movements of raw materials and end products. AOIPL's operation is raw material intensive with raw materials and consumables accounting for over 80-85% of its cost of manufacture. Thus, AOIPL's profit margins are exposed to fluctuations in raw material prices. Further, power accounts for ~15% of the cost of manufacture. However, the company's cost-competitive power purchase agreements reduce the susceptibility of its profitability to any downturns in the steel industry, to an extent.

Geographical and client concentration risks; customers largely restricted to Bengaluru – The company's operations are mainly concentrated in the southern region, exposing it to geographical concentration risk. Any slowdown in steel demand in its key addressable markets in the southern region could lead to an overall decline in its revenues and profits in the future. The customer concentration continues to be high, with 30% of the sales being made to India Gold, a proprietary firm owned by Mr. Abhishek Jallan (Director of AOIPL), based in Andhra Pradesh.

Moderate backward integration and highly competitive intensity constrain margins - The overall operations of the company are moderately integrated, with capacities to manufacture MS billets and TMT bars. Consequently, the company's operating margins remain low, being in the range of 5-8% during FY2020 to FY2022. In addition, the long steel segment is characterised by intense competition and low product differentiation, limiting the pricing flexibility of players, including AOIPL, which keeps margins at low levels.

Liquidity position: Adequate

The company's liquidity position is **adequate,** supported by healthy retained cash flows and sufficient undrawn limits. The average monthly utilisation of fund-based working capital limits stood at 47% during April 2021 to September 2022. The company's fund-based working capital limits increased to Rs. 40 crore from Rs. 20 crore in September 2022, which increased the overall liquidity headroom. The company has limited repayment obligation of ~Rs. 4.12 crore in FY2023, and around Rs. 1-2 crore/annum over the next two years (FY2024-FY2025), which can be comfortably serviced from the free cash flows. Going forward, the company's calibrated approach towards investment decisions will also support the liquidity position of the company.

Rating sensitivities

Positive factors – ICRA could upgrade the rating of AOIPL, if it demonstrates any sustained period of healthy earnings and significant strengthening of the net worth, while maintaining comfortable debt protection metrics and liquidity.

Negative factors – ICRA could downgrade the rating, if there is any significant decline in revenues, resulting in subdued operating profits and weakened liquidity position. Also, ICRA could downgrade the rating, if there is any significant debt-funded capex, leading to weakening of coverage indicators or liquidity profile. A specific credit metric for a downgrade is if Total Debt/OPBDITA is more than 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

A One Ispat Private Limited, incorporated in April 2010, manufactures thermo-mechanically treated (TMT) bars at its facility at Hindupur, Anantapura district, Andhra Pradesh, with an installed billet-making capacity of 1,50,000 metric tonne per annum (MTPA) and TMT bars-making capacity of 1,45,000 metric tonne per annum (MTPA). The company is managed by its directors, Mr. Sanjay Kumar Jallan and Mr. Abhishek Jallan. AOIPL has partially integrated operations, whereby billets required for TMT manufacturing are largely produced in-house using a mix of sponge iron and scrap as raw materials. AOIPL's customer base includes reputed TMT players. It sells its TMT under the 'India Gold' brand.

Key financial indicators

Standalone	FY2021	FY2022**
Operating income	351.66	638.30
PAT	17.32	21.11
OPBDIT/OI	8.15%	5.48%
PAT/OI	4.93%	3.31%
Total outside liabilities/Tangible net worth (times)	0.74	0.81
Total debt/OPBDIT (times)	0.47	0.67
Interest coverage (times)	12.63	15.18

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

***Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				October 17, 2022	Nov 15, 2021	July 28, 2020	Nov 29, 2019	Aug 08, 2019
Term loan	Long Term	4.0	7.71	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
Overdraft Facility	Long Term	30.0	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
Unallocated	Long Term	1.0	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Fund based – Term Loan	Simple
Long Term – Fund based – Cash Credit	Simple
Long Term – Unallocated	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2021	-	FY2025	4.00	[ICRA]BBB+ (Stable)
NA	**Cash Credit**	-	-	-	30.00	[ICRA]BBB+ (Stable)
NA	**Unallocated**	-	-	-	1.00	[ICRA]BBB+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
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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