

January 17, 2017

## Atibir Industries Company Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	218.00	[ICRA]BBB (Stable) assigned
Non-fund Based Limits	252.00	[ICRA]A3+ assigned
Unallocated Amount	10.00	[ICRA]BBB (Stable) assigned
<b>Total</b>	<b>480.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced as ICRA triple B)<sup>1</sup> for the Rs. 218.00-crore cash credit facility and Rs. 10.00-crore unallocated limits of Atibir Industries Company Limited (AICL). ICRA has also assigned a short-term rating of [ICRA]A3+ (pronounced as ICRA A three plus) to the Rs. 252.00-crore<sup>2</sup> non-fund based bank facilities of AICL. The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings take into account the experience and track record of the promoters in the steel industry, the backward integration of the company, which along with the fuel-supply agreement with Coal India Limited, have a favourable impact on the operating profile of the company. The ratings also take into account the conservative capital structure of the company given the negligible long-term debt on its books. The ratings are, however, constrained by the company's modest scale of operations, with sub-optimal capacity utilisation and limited value addition in operations, which exacerbate the exposure to the inherent cyclicity associated with the steel industry, keeping profitability and cash flows volatile. During FY2016, the operating profit margin of the company deteriorated due to steep decline in end-product prices. The capacity utilisation levels continue to be on the lower side, which, along with the completion of the recent capex programme, impacts the return on capital employed (RoCE). The ratings are also constrained by modest debt coverage indicators during FY2016. High working capital intensity of the company on account of high inventory days led to a stretched liquidity position. In addition, the company remains exposed to the risk of foreign exchange rate fluctuation due to dependency on imported coke. The ability of the company to profitably increase its scale of operations, leading to better capacity utilisation, while keeping working capital requirements under control would be the key rating sensitivities going forward.

### Key rating drivers

#### Credit Strengths

- Experience of the management in the steel industry
- Backward integration and raw material supply arrangements
- Conservative capital structure

#### Credit Weaknesses

- Cyclical nature of the steel industry; limited extent of value addition in the company's operations
- High working capital intensive nature of operations
- Exposure to foreign currency risks

### Description of key rating drivers highlighted above:

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million



Experience of the management in the steel industry

AICL was promoted in 2000 by the Sarawgi family of Giridih, who have a good track record in the steel industry. The company is a medium-sized player with manufacturing capacities of 1,20,000 tonnes per annum (TPA) of sponge iron, 3,00,000 TPA of pig iron, 3,00,000 TPA of pellet and 3,40,000 TPA of sinter.

Backward integration and raw material supply arrangements

The company enjoys the benefits of backward integration in the form of pellet and sinter facilities. Since AICL does not have captive mines for its key raw materials like coal, coke and iron ore, it has several raw material sourcing agreements in place with Coal India Limited, Rungta Mines Limited for procurement of coal and iron ore fines. Further the company fulfills its power requirements primarily through power purchase agreements with Damodar Valley Corporation, in addition to the power generated by its waste-heat-recovery based captive power plant.

Conservative capital structure

AICL has a conservative capital structure with debt comprising working capital facilities only. During FY2016, the company undertook significant capital expenditure funded by internal accruals to enhance its pig iron capacity to 6,00,000 TPA and its sinter capacity to 6,80,000 TPA, which have been funded by internal accruals and promoter contribution. However, there has been sub-optimal utilisation of capacities.

Cyclical nature of the steel industry; limited extent of value addition in the company's operations

AICL's limited extent of value addition has exacerbated the company's exposure to the inherent cyclicity of the steel industry, which in turn has impacted profitability and cash flows. Further, the current difficult operating environment has led to sub-optimal capacity utilisation for AICL.

High working capital intensive nature of operations

AICL has a high working capital intensity, which stretches its liquidity position, on account of high inventory days since it maintains inventory of raw material, especially coke and coal.

Exposure to foreign currency risks

AICL is entirely dependent on imported coke for its mini blast furnace, which exposes it to fluctuation in coke prices and foreign exchange fluctuations risk, particularly since the company does not have a defined hedging policy. In recent times, the surge in met-coke prices is likely to impact the profitability and cash flows of steel players, including AICL.

**Analytical approach:**

**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology  
ICRA Rating Methodology: Indian Steel Companies

**About the Company:**

Established in 2000, AICL is a Jharkhand-based company, promoted by the Sarawgi family. The company manufactures sponge iron, pig iron, pellet and sinter with capacities of 120,000 tonnes per annum (TPA), 300,000 TPA, 300,000 TPA and 340,000 TPA, respectively. The company commissioned a new mini blast furnace, with an installed capacity of 300,000 TPA for the production of pig iron and a 340,000 TPA capacity sinter plant during the first half of FY2017, which is expected to commence commercial operation from December 2016.

AICL reported a profit after tax (PAT) of Rs. 4.33 crore on an operating income of Rs. 603.47 crore in FY2016 compared to PAT of Rs. 16.69 crore on an operating income of Rs. 713.47 crore in FY2015.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017			
1	Cash Credit	Long Term	218.00	[ICRA]BBB (Stable)			
2	Letter of Credit	Short Term	240.00	[ICRA]A3+			
3	Bank Guarantee	Short Term	12.00	[ICRA]A3+			
4	Unallocated	Long Term/ Short Term	10.00	[ICRA]BBB (Stable)/			
5	Term Loans	Long Term	124.45				Suspended [ICRA]BB-(stable)
6	Fund Based Limits- Cash credit	Long Term	140.00				Suspended [ICRA]BB-(stable)
7	Non-Fund Based Limits	Short Term	180.10				Suspended [ICRA]A4

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	218.00	[ICRA]BBB (Stable)
Letter of Credit	-	-	-	240.00	[ICRA]A3+
Bank Guarantee	-	-	-	12.00	[ICRA]A3+
Unallocated Amount	-	-	-	10	[ICRA]BBB(Stable)/

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**About ICRA Limited:**

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