

October 17, 2017

## Arya Iron and Steel Company Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term fund based limits– Cash Credit	48.00	[ICRA]BBB- (Stable); assigned
Long-term fund based – Term loan	20.00	[ICRA]BBB- (Stable); assigned
Short-term fund based limits	50.00	[ICRA]A3; assigned
Short-term non-fund based limits	6.25	[ICRA]A3; assigned
Short-term fund based / non-fund based limits	(40.00)*	[ICRA]A3; assigned
<b>Total</b>	<b>124.25</b>	

\*Rs. 40.00 crore short-term fund based / non-fund based facility is a sublimit of Rs. 48.00 crore long-term fund based facility

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 48.00 crore<sup>1</sup> cash-credit facility and the Rs. 20.00 crore term loans of Arya Iron and Steel Company Private Limited (AISCO)<sup>2</sup>. The outlook on the long-term rating is 'Stable'. ICRA has also assigned a short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 50.00 crore fund-based facility, Rs. 6.25 crore non-fund based facility and Rs. 40.00 crore fund-based / non-fund based facility of AISCO. The short-term fund based / non-fund based facility of Rs. 40.00 crore is a sub-limit of long-term fund-based facility of Rs. 48.00 crore.

### Rationale

The assigned ratings take into account AISCO's comfortable capital structure and healthy coverage indicators on account of low debt levels and improved profitability in FY2017. ICRA notes that a sharp improvement in pellet prices and favourable demand in the export markets in FY2017 led to a healthy revenue growth and increased margins during the year, which is likely to continue in the current year owing to sustained demand and buoyant prices in both domestic and export markets. The ratings also take into consideration the company's competitive advantage for having a plant in close proximity to iron ore mines, which ensures easy availability of raw materials and also results in low freight costs, thereby supporting its operating profitability.

The ratings, however, are constrained by AISCO's exposure to prices risks, given the significant volatility witnessed in pellet prices in the recent past and the overcapacity situation in the domestic pelletisation industry. The ratings are also tempered by the company's large investments in assets which are yet to yield any returns as the project is incomplete and has been put on hold at present, and its advances and corporate guarantees extended to non-operational group entities, which adversely impact its financial risk profile. ICRA also takes note of the company's track record of sizeable dividend payouts, which resulted in negative cash accruals in the last few years despite reporting healthy net profits. The ratings also factor in the company's exposure to regulatory risks as any unfavourable change in the Government policy may impact iron ore availability and prices.

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

<sup>2</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

The company's ability to restart the high-grade pure iron nuggets (HGPIN) project would remain a key credit rating factor. Also, any significant dividend payout affecting cash accruals and/or further increase in investments in e group companies would remain in focus.

### Key rating drivers

#### Credit strengths

- **Comfortable capital structure and healthy coverage indicators** – AISCO's capital structure remains comfortable, marked by gearing of 0.42 times as on March 31, 2017 owing to low debt levels. The coverage indicators also remained healthy in FY2017 with interest coverage of 4.41 times and total debt-to-profitability of 2.08 times on account of improved profitability.
- **Healthy revenue growth and profitability in FY2017, which is likely to continue this year** – AISCO reported ~63% growth in operating income during FY2017 on the back of volume growth of ~68%. The company benefitted from the favourable demand and realisations in the export market, which is likely to continue this year due to sustained demand and buoyant prices in both domestic and export markets.
- **Location-specific advantage of the plant** – The company operates a 1.2-mtpa pelletisation plant at Barbil, Odisha. The plant is located very close to iron ore mines, which ensures regular supply of raw material and also results in low freight costs. The plant is also located in close proximity to Dhamra and Paradeep port, which reduces its transportation cost for export orders.

#### Credit weaknesses

- **Exposure to price risks given the significant volatility witnessed in pellet prices** – Domestic pelletisation industry continues to be characterised by overcapacity, which exerts pricing pressure on pellet manufacturers, including AISCO. Additionally, given the high inventory-holding period of the company, it remains exposed to significant price risks.
- **Sizeable investment in non-yielding assets** – AISCO has invested Rs. 62.38 crore in a capex project worth Rs. 200 crore, which has been put on hold since December, 2015 owing to subdued market conditions rendering the project unviable. Investment in non-yielding assets has put pressure on the return indicators of the company as reflected by a return on capital employed of 13.4% in FY2017 against 26.1% in FY2015. The company has plans to revive a part of the stalled project by setting up an HGPIN plant in Barbil. However, given the estimated project capex of Rs. 135 crore and proposed project gearing of 2.4 times, the same would strain the capital structure of the company to an extent.
- **Large advances and corporate guarantees extended to non-operational group entities** – The company has extended letter of comfort of Rs. 19.6 crore and advances of Rs. 15.5 crore to a non-operational group entity, which adversely impact its financial risk profile.
- **Exposure to regulatory risks**– AISCO also remains exposed to regulatory risks, as any unfavourable change in the Government policy may impact raw material availability and prices.

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of AISCO and its group entities and also applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Entities in the Ferrous Metals Industry](#)  
[Corporate Credit Rating Methodology](#)



**About the company:**

Incorporated in 2008, Arya Iron & Steel Company Private Limited (AISCO) is a part of the Arya Group and operates an iron-ore pelletisation plant at Barbil, Odisha with a capacity of 1.20 million tonnes per annum (mtpa). The plant commenced its commercial production in February, 2008.

**Key financial indicators**

	FY2016	FY2017
Operating Income (Rs. crore)	191.18	312.28
PAT (Rs. crore)	-23.20	22.43
OPBDIT/ OI (%)	-7.37%	14.52%
RoCE (%)	-7.67%	13.44%
Total Debt/ TNW (times)	0.50	0.42
Total Debt/ OPBDIT (times)	-7.08	2.08
Interest Coverage (times)	-2.78	4.41
NWC/ OI (%)	18.45%	28.73%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital*

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

**Any other information:** Not applicable

**Rating history for last three years:  
Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					October 2017	September 2016	December 2015	December 2014	
1	Cash Credit	Long Term	48.00	48.00	[ICRA]BBB-(Stable)	Suspended	[ICRA]BBB (Negative)	[ICRA]A-(Stable)	
2	Term Loan	Long Term	20.00	20.00	[ICRA]BBB-(Stable)	Suspended	[ICRA]BBB (Negative)	[ICRA]A-(Stable)	
3	Buyer's Credit	Short Term	10.00	10.00	[ICRA]A3	Suspended	-	-	
4	Bill Discounting	Short Term	40.00	40.00	[ICRA]A3	Suspended	-	-	
5	Bank Guarantee	Short Term	5.00	5.00	[ICRA]A3	Suspended	[ICRA]A3+	[ICRA]A2+	
6	Forward Contract	Short Term	1.25	1.25	[ICRA]A3	Suspended	-	-	
7	Fund based / non-fund based	Short Term	(40.00)*	(40.00)*	[ICRA]A3	Suspended	[ICRA]A3+	[ICRA]A2+	

\*Rs. 40.00 crore short-term fund based / non-fund based facility is a sublimit of Rs. 48.00 crore long-term fund based facility

**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**  
**Instrument Details**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
-	Cash Credit	-	-	-	48.00	[ICRA]BBB-(Stable)
-	Term Loan	-	-	FY2024	20.00	[ICRA]BBB-(Stable)
-	Buyer's Credit	-	-	-	10.00	[ICRA]A3
-	Bill Discounting	-	-	-	40.00	[ICRA]A3
-	Bank Guarantee	-	-	-	5.00	[ICRA]A3
-	Forward Contract	-	-	-	1.25	[ICRA]A3
-	Fund based / non-fund based	-	-	-	(40.00)*	[ICRA]A3

Source: Arya Iron and Steel Company Private Limited

## Contact Details

### Analyst Contacts

**Jayanta Roy**

+91 33 2287 6617

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Priyesh Ruparelia**

+91 22 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Ankit Vora**

+91 22 6169 3364

[Ankit.vora@icraindia.com](mailto:Ankit.vora@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@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](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved  
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500