Atibir Industries Company Limited

June 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	218.00	218.00	[ICRA]BBB reaffirmed; outlook revised to Positive from Stable
Non-fund based facilities	252.00	252.00	[ICRA]A3+; reaffirmed
Unallocated limits	10.00	10.00	[ICRA]BBB reaffirmed; outlook revised to Positive from Stable
Total	**480.00**	**480.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating for the Rs. 218.00-crore[1] cash-credit facility and Rs. 10.00-crore unallocated limits of Atibir Industries Company Limited (AICL) [2] at [ICRA]BBB (pronounced as ICRA triple B). ICRA has also reaffirmed the short-term rating for the Rs. 252.00-crore non-fund based bank facilities at [ICRA]A3+ (pronounced as ICRA A three plus). The outlook on the long-term rating has been revised to Positive from Stable.

Rationale

The revision in outlook considers the improvement in the company's financial profile in FY2018, as per provisional numbers, on the back of an uptrend in end-product realisations given the favourable demand scenario in the steel industry. AICL's operating income has witnessed a healthy YoY growth of 84% to reach Rs. 1033.6 crore (provisional) in FY2018 on the back of increase in sales volumes and realisations. The operating profit increased from Rs. 68.7 crore in FY2017 to Rs. 111.4 crore in FY2018. Heathy operating profits led to an improvement in debt coverage indicators with interest cover improving to 3.2 times in FY2018 from 1.8 times in FY2017. With a favourable outlook for the steel industry, AICL's financial performance is expected to remain buoyant in the current fiscal as well. The ratings continue to favourably factor in the extensive experience and an established track record of the promoters in the steel industry, the backward integrated nature of the operations, 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 company's conservative capital structure given the negligible long-term debt on its books. The ratings are, however, constrained by the exposure to the inherent cyclicality associated with the steel industry, which keeps profitability and cash flows of steel players, including AICL, volatile. The ratings are also tempered by the moderately high working capital intensity and the company's exposure to fluctuations in raw material prices due to dependency on imported coal and coke. In addition, the RoCE of the company remained depressed, despite an improvement in AICL's performance in FY2018, given a sub-optimal capacity utilisation during the year. The ability of the company to increase its capacity utilisation levels, leading to an increase in its scale of operations, while keeping working capital requirements under control would be the key rating sensitivities, going forward.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Positive

ICRA expects that AICL will benefit from its established track record, extensive experience of the promoters and the current favourable operating environment in the steel sector. The outlook may be revised to Stable if profitability and cash accrual are lower than expected. The outlook may be revised to Negative if there is a reversal in the industry fortunes on a sustainable basis, or if there is a deterioration in the company's financial profile, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Improvement in AICL's financial profile during FY2018; capital structure remained conservative – As per provisional results, AICL's financial performance witnessed an improvement in FY2018, primarily driven by an uptrend in end-product prices and increase in sales volumes. Favourable demand outlook on the steel industry and increase in average realisations for pig iron, sponge iron and pellets have led to a healthy growth in AICL's operating income during FY2018. AICL's operating profit stood at Rs. 111.4 crore in FY2018, higher than Rs. 68.7 crore recorded in FY2017. AICL's capital structure remained conservative with debt comprising working capital facilities. The gearing declined to 0.64 times as of end-FY2018 from 0.79 times as of end-FY2017 due to healthy accretions to reserves and reduction in debt levels. Heathy operating profits led to an improvement in debt coverage indicators with interest cover improving to 3.2 times in FY2018 from 1.8 times in FY2017, Total Debt/OPBITDA declining to 2.1 times in FY2018 from 3.7 times in FY2017 and NCA/Debt increasing to 33% in FY2018 from 12% in FY2017. Favourable demand outlook for the steel industry augurs well for the company going forward.

Extensive experience of the promoters in the steel industry - AICL was promoted in 2000 by the Sarawgi family of Giridih, who have an established track record in the steel industry. The company is a medium-sized player with manufacturing capacities of 120,000 tonne per annum (TPA) of sponge iron, 600,000 TPA of pig iron, 300,000 TPA of pellet and 680,000 TPA of sinter.

Backward integration and raw material supply arrangements favourably impact operational profile - The company enjoys the benefits of backward integration in the form of pellet and sinter facilities, which provide key inputs for production of sponge iron and pig iron. However, given the overall lack of captive sources for its key raw materials, AICL continues to be exposed, to some extent, to the variability in prices of iron ore, coal and coke. For its coal requirement, the company has in place fuel-supply agreements with Coal India Limited, which provides some comfort in terms of supply of coal at competitive prices. The balance coal requirement is primarily met either through imported coal from South Africa or purchased through e-auction. AICL has a long-term supply agreement in place with domestic iron ore miners for procurement of iron ore fines.

Credit challenges

Moderately high working capital intensive nature of operations - AICL has a moderately high working capital intensity, which impacts its liquidity position, on account of high inventory days since it maintains inventory of raw material, especially coke and coal. The average working capital utilisation is moderately high at around 85% in the last 15 months. However, absence of any long-term debt provides the company with some financial flexibility.

Depressed return indicators on the back of low capacity utilisation levels – Despite the improvement in AICL's financial performance, the RoCE remained depressed at 9.3% in FY2018 on account of low capacity utilisation levels. AICL had undertaken a major capital expenditure in the recent past to double its blast furnace and sinter capacities to 600,000

TPA and 680,000 TPA, respectively. Despite improvement in steel demand, AICL's capacity utilisation levels remained sub-optimal at 59% for pig iron and 48% for sponge iron, which in turn led to subdued return indicators in FY2018.

Exposure to fluctuations in raw material prices - AICL is exposed to the fluctuations in raw material prices, given the lack of captive sources for its key raw materials. AICL imports coke and thermal coal, which exposes it to the volatility in raw material prices and foreign exchange fluctuations risk. However, the company has a defined hedging policy which mitigates the foreign exchange risk to an extent.

Exposure to the cyclical nature of the steel industry – AICL is exposed to the inherent cyclicality of the steel industry, which keeps profitability and cash flows of all steel players volatile.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Ferrous Metals Industry

About the company

Incorporated 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 tonne per annum (TPA), 600,000 TPA, 300,000 TPA and 680,000 TPA, respectively.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 15.22 crore on an operating income of Rs. 1033.63 crore compared to a net profit of Rs. 3.39 crore on an operating income of Rs. 562.24 crore in FY2017.

Key financial indicators (audited)

	FY2016	FY2017	FY2018*
Operating Income (Rs. crore)	603.47	562.24	1033.63
PAT (Rs. crore)	4.13	3.39	15.22
OPBDIT/OI (%)	11.20%	12.21%	10.78%
RoCE (%)	11.55%	9.63%	9.33%
Total Debt/TNW (times)	0.78	0.79	0.64
Total Debt/OPBDIT (times)	3.72	3.70	2.06
Interest coverage (times)	1.67	1.76	3.16

Source: Company; * Provisional

Status of non-cooperation with previous CRA

CRA	Status of Non-cooperation	Date of Press Release
India Ratings	India Ratings has maintained AICL's ratings at IND BBB(ISSUER NOT COOPERATING)/ IND A2(ISSUER NOT COOPERATING) in the Non-Cooperating Category, as the issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency.	May 23, 2018

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 -
1	Cash Credit	Long Term	218.00	-	[ICRA]BBB (Positive)	-	[ICRA]BBB (Stable)	-
2	Letter of Credit	Short Term	240.00	-	[ICRA]A3+	-	[ICRA]A3+	-
3	Bank Guarantee	Short Term	12.00	-	[ICRA]A3+	-	[ICRA]A3+	-
4	Unallocated	Long Term	10.00	-	[ICRA]BBB (Positive)	-	[ICRA]BBB (Stable)	-

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	218.00	[ICRA]BBB (Positive)
NA	Letter of Credit	-	-	-	240.00	[ICRA]A3+
NA	Bank Guarantee	-	-	-	12.00	[ICRA]A3+
NA	Unallocated Amount	-	-	-	10.00	[ICRA]BBB(Positive)

Source: Atibir Industries Company Limited

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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.

For more information, visit www.icra.in

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