

## Rating Advisory

December 21, 2022 | Mumbai

### Aditya Ultra Steel Limited

**Update as on December 21, 2022**

This rating advisory is provided in relation to the rating of Aditya Ultra Steel Limited

The key rating sensitivity factors for the rating include:

#### Upward factors

- Significant and sustainable rise in accruals above Rs. 8 cr
- Sharp and sustainable improvement in margin coupled with steady working capital cycle.

#### Downward factors

- Sizeable stretch in the working capital cycle to over 2 months impacting the liquidity
- Significant capex or weakening margin impacting the financial profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Aditya Ultra Steel Limited (AUSL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If AUSL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

#### About the Company

AUSL, incorporated in 2011, has a TMT re-rolling mill in Rajkot (Gujarat). Mr Manoj Jain and his son, Mr Varun Jain, are the current promoters; they took over operations in fiscal 2017.

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## Rating Rationale

October 26, 2021 | Mumbai

### Aditya Ultra Steel Limited

Rating migrated to 'CRISIL BBB- / Stable'

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.15 Crore</b>
<b>Long Term Rating<sup>&amp;</sup></b>	<b>CRISIL BBB-/Stable (Migrated from 'CRISIL BB+ / Stable ISSUER NOT COOPERATING*')</b>

<sup>&</sup> \*Issuer did not cooperate; based on best-available information

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

Due to inadequate information, CRISIL Ratings, in line with SEBI guidelines, had migrated the rating of Aditya Ultra Steel Ltd (AUSL) to 'CRISIL BB+/Stable Issuer Not Cooperating'. However, the management has subsequently started sharing requisite information, necessary for carrying out comprehensive review of the rating. Consequently, CRISIL is migrating the rating on bank facilities of AUSL from 'CRISIL BB+/Stable Issuer Not Cooperating' to '**CRISIL BBB-/Stable**'.

The ratings reflect the extensive experience of the promoters along with benefits derived by AUSL from association with established brand, Kamdhenu, moderate financial profile and an efficient working capital cycle. These strengths are partially offset by the exposure to volatility in raw material prices, and dependence on principal.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- Extensive experience of the promoters and established brand position**

The promoters have more than three decades of experience, through group entities engaged in ship breaking activity. Since takeover of AUSL's operations in fiscal 2017, its scale has significantly increased, backed by industry acumen of the promoters and continuous focus on improving efficiency of the manufacturing facility.

The company sells its products under the brand, Kamdhenu, which is an established domestic brand in TMT. Benefits from well-established dealer network and marketing support provided by Kamdhenu helped in establishing its presence in Tier-3 cities of Gujarat. The company is the sole supplier of Kamdhenu thermo-mechanically treated (TMT) bars in Ahmedabad.

- Moderate financial risk profile**

AUSL had a moderate net worth of Rs 20 crore and gearing of 1.84 times as on March 31, 2021. Debt protection metrics were adequate with an interest coverage ratio of 3.5 times and adjusted debt to networth ratio of 0.15 times in fiscal 2021.

- Efficient working capital cycle:** Operations are efficiently managed, as reflected in Gross current assets at 44 days as on March 31, 2021. The company maintains an inventory of about a month on account of various TMT sizes. Its debtors were less than a week. Over the medium term, company is expected to maintain working capital cycle in similar range.

##### Weaknesses

- Exposure to volatility in raw material prices**

Since cost of procuring the major raw material (ingots) accounts for 75-80% of total production cost, even a slight variation in rates may drastically impact profitability. The risk is pronounced as the company has modest operating margin of 2-3% only.

- **Dependence on principal:** Majority of the products are sold under Kamdhenu brand and hence, relationship with the principal will remain critical for maintaining the expected scale of operations over the medium term.

#### **Liquidity: Adequate**

AUSL has adequate liquidity marked by moderate cash accruals against repayment obligations, efficient working capital management though high limit utilization. The company is expected to generate annual cash accruals of Rs. 5-6 cr against its repayment of around Rs. 3.5 cr in fiscal 2022 and Rs. 2 cr in subsequent years. AUSL continues to well manage its working capital cycle however owing to significant rise in metal prices, its working capital requirements have increased with average bank limit utilization being 92 % (off the sanctioned Rs. 27 cr limit) through 12 months to August 2021. The company has just got its working limits enhanced by Rs. 10 cr which shall ensure adequate liquidity for company. AUSL's current ratio and financial flexibility remains moderate.

#### **Outlook Stable**

CRISIL Ratings believes AUSL will continue to benefit from the extensive experience of the promoters and an established presence through Kamdhenu.

#### **Rating Sensitivity factors**

##### **Upward factors**

- Significant and sustainable rise in accruals above Rs. 8 cr
- Sharp and sustainable improvement in margin coupled with steady working capital cycle.

##### **Downward factors**

- Sizeable stretch in the working capital cycle to over 2 months impacting the liquidity
- Significant capex or weakening margin impacting the financial profile

#### **About the Company**

AUSL, incorporated in 2011, has a TMT re-rolling mill in Rajkot (Gujarat). Mr Manoj Jain and his son, Mr Varun Jain, are the current promoters; they took over operations in fiscal 2017.

#### **Key Financial Indicators**

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	347	331
Reported profit after tax	Rs crore	4.3	2.5
PAT margins	%	1.23	0.75
Adjusted Debt/Adjusted Net worth	Times	1.84	2.79
Interest coverage	Times	3.51	2.05

#### **Note on complexity levels of the rated instrument:**

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#### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Cr)	Complexity level	Rating assigned and outlook
NA	Cash Credit	NA	NA	NA	15	NA	CRISIL BBB-/Stable

#### **Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	15.0	CRISIL BBB-/Stable	30-03-21	CRISIL BB+ /Stable(Issuer Not Cooperating)*	--	--	18-12-19	CRISIL BBB-/Stable	--	--	--

All amounts are in Rs.Cr.

\* - Issuer did not cooperate; based on best-available information

#### **Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Rating
Cash Credit	15	CRISIL BBB-/Stable

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
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