



ADHUNIK INDUSTRIES LIMITED

(Formerly known as Bhagwati Resources Ltd.)

An ISO 9001:2008 , 14001 : 2004 & 18001 : 2007 Organisation

Corporate Office : "LANSDOWNE TOWERS", 2/1A, SARAT BOSE ROAD, KOLKATA - 700 020

Phone : 033-3051 7100 ★ Fax : 91-33-2289 0285 ★ Website : www.adhunikindustries.com

E-mail: info@adhunikgroup.com

2nd January, 2017.

To,

The Secretary The BSE Ltd. Phiroze Jeejeebhoy Towers Dalal Street Mumbai-400 001. Scrip Code- 538365	The Secretary National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Bandra (E) Mumbai-400 051. Scrip Code- ADHUNIKIND
The Secretary The Calcutta Stock Exchange Ltd 7 Lyons Range Kolkata-700 001. Scrip Code- 10028188	

Dear Sir,

Sub:- Rationale/Reasons for revision in External Credit Rating of the Company from M/s. India Ratings & Research Pvt. Ltd.

Ref: Clarification sought by NSE vide its e-mail dated- 02/01/2017

With reference to the captioned matter, this is to inform you that our Company had made an announcement to all stock exchanges where the shares of the Company are listed vide its Letter dated- 31/12/2016 for downgrade of Long Term Issuer Rating by External Credit Rating Agency M/s. India Ratings & Research Private Limited (Ind-Ra) from 'IND BBB' to 'IND BBB-' for loan taken by the Company with effect from 30th December, 2016. In this relation and further to the clarification sought by NSE vide its e-mail dated-02/01/2017, we are enclosing herewith the copy of rationale/reasons for revision of rating duly published by the rating agency.

This is for your information and record.

Thanking You,

Yours truly,

For Adhunik Industries Limited

Managing Director

Name: Jugal Kishore Agarwal

DIN: 00227460

India Ratings Downgrades Adhunik Industries to 'IND BBB-'; Outlook Stable

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By Rohit Sadaka

DEC 2016

India Ratings and Research (Ind-Ra) has downgraded Adhunik Industries Limited's (AIL) Long-Term Issuer Rating to 'IND BBB-' from 'IND BBB'. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

Deterioration in Credit Metrics: Rating downgrade reflects deterioration in credit metrics in FY16 against Ind-Ra's expectation of improvement. EBITDA interest cover (EBITDA / interest cost) deteriorated to 1.4x in FY16 (FY15: 1.9x) due to decline in EBITDA margin, though net leverage (net debt / EBITDA) remained at 2.63x (2.68x) on account of reduction in year-end debt. Debt declined to INR721.3 million at FYE16 (FYE15: INR1,052.8 million); the decline is due to reduction in term debt and unsecured debt on account of repayment as well as lower use of working capital debt. Based on 1H FY17 interest cover continued to remain low at 1.36x (1.81x) and annualised net leverage deteriorated to 3.93x due to further reduction in EBITDA margin to 4.69% (1H FY16: 6.74%). AIL's revenue remained at INR4,101 million in FY16 (FY15: INR4,112 million), however, declined to INR2,035.4 million in 1H FY17 (1H FY16: INR2,433.4 million) due to lower realisation despite increase in volume.

Decline in EBITDA Margin: AIL's EBITDA margin declined in FY16 to 6.63% (FY15: 9.37%) due to reduction in blended sales realisation to INR29,943/ton (INR30,155.9/ton) resulting in higher raw material cost and other manufacturing cost as proportion of revenue. EBITDA margin has further declined in 1H FY17 to 4.69% (1H FY16: 6.74%) due to further reduction in sales realisation of TMT bars. Ind-Ra expects margin to remain low in 2H FY17.

Working Capital Intensive: AIL's business is highly working capital intensive with net cash conversion cycle of around 100 days-110 days. The net cash cycle improved to 77 days in FY16 due to lower inventory days while maintaining payable days. The inventory days declined to 77 days in FY16 (FY15: 119 days) due to reduction in raw material holding and lower prices. The decrease in inventory days was supported by higher payable days of 74 days in FY16 (FY15: 79 days), hence net cash cycle improved to 77 days (107 days).

Comfortable Liquidity: AIL's liquidity has remained comfortable as reflected in positive free cash flow over FY13-FY16. The company's average maximum use of the working capital facilities was around 90% during the 12 months ended November 2016.

Highly Competitive Business: AIL being a commodity player is exposed to the volatility in raw material and finished

goods prices. The EBITDA margin has been range bound between 7% and 9% over FY13-FY16 on back of movement in prices which declined to 4.7% in 1HFY17.

RATING SENSITIVITIES

Positive: Sustained improvement in EBITDA margin leading to interest cover maintained above 1.75x could lead to a positive rating action.

Negative: Any debt led capex and/or decline in EBITDA margin leading to net leverage above 4.5x and deterioration in interest cover below 1.25x could lead to a negative rating action.

COMPANY PROFILE

AIL is a Kolkata-based company. The company manufactures rolled products mainly TMT bars, rounds and wire rods at its plant located in Durgapur, West Bengal.

AIL's Ratings:

- Long-Term Issuer Rating: downgraded to 'IND BBB-'; Outlook Stable from 'IND BBB'; Outlook Stable
- INR59.4 million Long-term loan (reduced from INR143.8 million): downgraded to 'IND BBB-'; Outlook Stable from 'IND BBB'; Outlook Stable
- INR905.5 million fund based limit: downgraded to 'IND BBB-'; Outlook Stable from 'IND BBB'; Outlook Stable
- INR560 million non-fund based limit: downgraded to 'IND A3' from 'IND A3+'

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

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