

Press Release

Aryavrata Steel Private Limited

October 14, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.15.00 crore bank facilities of ARYAVRATA STEEL PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 1994, Aryavrata Steel Private Limited (ASPL) is a West Bengal-based company promoted by Mr. Ashok Kumar Patwari and Mrs. Kiran Devi Patwari. ASPL is engaged in manufacturing of sponge iron and trading of coal and iron ore. The company has its manufacturing unit located in Jhargam (West Bengal) with installed capacity of manufacturing 150 tonnes per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ASPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

ASPL is promoted by Mr. Ashok Kumar Patwari, who possesses experience of more than two decades in the sponge iron manufacturing, coal and iron ore trading. Mr. Nishant Patwari also joined the company in 2011, and he possesses an experience of 8 years in the same industry. The promoter's extensive experience is also reflected through the revenue growth of over the last 3 years through 2017- 19. The company's revenue grew at a CAGR of ~11.50 per cent over the aforementioned period.

Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

• Moderate financial risk profile

ASPL's financial risk profile is moderate, marked by a moderate networth, low gearing and average debt protection metrics. The net worth of the company stood moderate at Rs. 27.28 crore as on 31 March, 2019. The gearing (debt-equity) stood low at 0.62 times as on March 31, 2019 against 0.52 times as on March 31, 2018. The total debt outstanding of Rs. 16.90 crore consists of long term debt of Rs. 0.55 crore, Rs. 2.94 crore of unsecured loans and Rs.13.40 crore of short term debt obligations. The leverage and coverage indicators continue to remain average marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood moderate at 1.74 times and DSCR stood at 1.64 times in FY2019. Total outside liabilities to tangible net worth has remained low at 0.90 times as on 31 March, 2019 as against 0.81 times as on 31 March, 2018.

Acuité believes that the growth in revenue, sustenance of its profitability margins and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

Weaknesses

• Thin profitability margins

The company showed improvement in revenues marked by operating income of Rs. 79.33 crore for FY2019 as against Rs. 68.69 crore in FY2018 and Rs. 63.72 crore for FY2017. Being into manufacturing of sponge iron, the operating margins of ASPL stood thin at 4.41 per cent in FY2019 as compared to 4.54 per cent in FY2018 and 4.21 per cent in FY2017. The net profitability has been thin at 1.05 per cent in FY2019 as

compared to 1.09 per cent in FY2018 and 1.14 per cent in FY2017. This is mainly on account of fluctuation in raw material prices as company is unable to pass on the price to its customer.

Acuité believes that the company's ability to register significant growth in its revenues, while improving its profitability, are key rating sensitivity factors over the medium term.

• Moderate working capital operations

The company has moderate working capital operations marked by Gross Current asset (GCA) of 180 days for FY2019 as against 200 days for FY2018. This is majorly on account of inventory holding of 123 days in FY2019 as against 136 days in FY2018. The collection period stood at 38 days in FY2019 as against 48 days in FY2018. Acuité believes that the ability of the group to efficiently manage its working capital requirements will remain key rating sensitivity.

Rating Sensitivity

- Substantial reduction in GCA days to around 110-130 days.
- Stretch in working capital cycle leading to increase in working capital borrowings.

Material Covenants

None

Liquidity position: Adequate

The company's liquidity is adequate marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.1.44 crore in FY2019 to repay its long-term debt obligations of Rs. 0.23 crore over the same period. The cash accruals of the company are estimated to remain around Rs.1.6-2.4 crores during 2020-22, while its repayment obligations are expected to be Rs. 0.3 crore over the same period. The company's operations are moderate working capital as marked by gross current asset (GCA) days of 180 in FY2019. The cash credit limit in ASPL remains 80 per cent utilized during the last 6 months period ended September, 2019. The company maintains unencumbered cash and bank balances of Rs.1.33 crore as on March 31, 2019. The current ratio of the company stood healthy at 1.98 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of any significant debt funded capex.

Outlook: Stable

Acuité believes that ASPL's outlook will remain 'Stable' over the medium term from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues, while improving its working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	79.33	68.69	63.72
EBITDA	Rs. Cr.	3.50	3.12	2.68
PAT	Rs. Cr.	0.84	0.75	0.73
EBITDA Margin	(%)	4.41	4.54	4.21
PAT Margin	(%)	1.05	1.09	1.14
ROCE	(%)	6.88	6.04	10.57
Total Debt/Tangible Net Worth	Times	0.62	0.52	0.51
PBDIT/Interest	Times	1.74	1.93	2.05
Total Debt/PBDIT	Times	4.69	4.24	4.79
Gross Current Assets (Days)	Days	180	200	263

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Apr-2019	Proposed Cash Credit	Long Term	13.00	ACUITE BB+ (Indicative)
	Proposed Bank Guarantee	Short Term	2.00	ACUITE A4+ (Indicative)
12-Mar-2018	Proposed Cash Credit	Long Term	13.00	ACUITE BB+ (Indicative)
	Proposed Bank Guarantee	Short Term	2.00	ACUITE A4+ (Indicative)
21-Nov-2016	Proposed Cash Credit	Long Term	13.00	ACUITE BB+/Stable (Assigned)
	Proposed Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BB+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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