

Press Release

Arjun Enterprises Private Limited

December 07, 2018



Rating Upgraded and Assigned

Total Bank Facilities Rated	Rs. 30.00 crore (Enhanced from Rs. 19.00 crore)
Long Term Rating	ACUITE BB-/ Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B+**' (**read as ACUITE B plus**) and the short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 19.00 bank facilities of Arjun Enterprise Private Limited (AEPL). The outlook is '**Stable**'.

Further, Acuité has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 11.00 bank facilities of Arjun Enterprise Private Limited (AEPL). The outlook is '**Stable**'.

The rating revision is on account of unsecured loan to the tune of Rs. 14.57 crore which are subordinated to bank debt. Hence, Acuité has considered them as quasi equity. The gearing stood at 1.36 times for FY2018 as against 11.40 times in FY2017. Further, the rating continues to draw comfort from the experienced management, improving debt protection metrics and profitability margin.

The Delhi-based, AEPL was incorporated in 2008 by Mr. Anil Anand, Mr. Ashish Anand, and Ms. Soumya Anand. The company is engaged in the business of import and trading of copper scrap, wire and allied products in the domestic market.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

AEPL was incorporated in 2008. It is engaged in the business of import and trading of copper scrap, wire and allied products in the domestic market. The promoters have nearly a decade of experience in copper industry. The company has diversified product profile of trading of wire rod, billets, ingots, cake, wire copper, bus bar/strips, battery terminals, sheets and circles.

Acuité believes that the company will benefit from its experienced management to maintain healthy relations with its customers and suppliers.

- **Revenue growth with increasing profitability margins**

AEPL has registered a healthy revenue growth with compounded annual growth rate (CAGR) of 95 percent during the last three years ended 31 March, 2018. The company reported revenue of Rs. 164.95 crore in FY2018 as against Rs.123.86 crore in FY2017 and Rs.67.33 crore in FY2016.

Further, the operating margins stood at 2.99 percent in FY2018 as against 2.37 percent in FY2017. The PAT margins stood at 0.49 percent in FY2018 as against 0.55 percent in FY2017 and 0.61 percent in FY2016.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 118 days in FY2018 as compared to 126 days in FY2017. The GCA days are mainly dominated by high inventory holding of 95 days in FY2018 compared to 77 days in FY2017. The collection period stood at 16 days in FY2018 compared to 39 days in FY2017. The average cash credit utilisation for the past six months is fully utilised.

Acuité believes that the efficient working capital management will be crucial in order to maintain a stable credit profile.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs.18.38 crore as on 31 March, 2018 as against Rs.3.00 crore in the previous year. The net worth includes unsecured loans of Rs.14.57 crore as on 31 March, 2018 from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing stood moderate at 1.36 times on 31 March, 2018 as against 11.40 times in the previous year. The total debt of Rs.25.01 crore includes term loan from bank of Rs.0.08 crore and working capital borrowings of Rs.24.93 crore. Interest Coverage Ratio (ICR) stood at 1.35 times for FY2018 as against 1.64 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.11 times as on 31 March, 2018 as against 1.47 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.04 times in FY2018 compared to 0.04 times in FY2017.

Going forward, Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

• Exposed to fluctuation in raw material prices

The major raw material of the company is copper scrap. The prices of the same are fluctuating in nature therefore the operating profit margins of the company is susceptible to raw material price fluctuation.

Outlook: Stable

Acuité believes that the outlook will remain 'Stable' over the medium term on account of its promoter's extensive experience and improving profitability margins. The outlook may be revised to 'Positive' in case the company maintains its financial risk profile and working capital operations while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	164.95	123.86	67.33
EBITDA	Rs. Cr.	4.93	2.93	1.20
PAT	Rs. Cr.	0.81	0.68	0.41
EBITDA Margin	(%)	2.99	2.37	1.78
PAT Margin	(%)	0.49	0.55	0.61
ROCE	(%)	12.00	11.00	12.30
Total Debt/Tangible Net Worth	Times	1.36	11.40	6.37
PBDIT/Interest	Times	1.35	1.64	1.63
Total Debt/PBDIT	Times	5.07	11.67	9.67
Gross Current Assets (Days)	Days	118	126	61

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-up.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
07-Sep-2018	Cash Credit	Long Term	10.00	ACUITE B+ / Stable (Downgraded from ACUITE BB-/Stable)
	Letter of Credit	Long Term	9.00	ACUITE A4 (Downgraded from ACUITE A4+)
01-Jun-2017	Cash Credit	Long Term	12.00	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Long Term	7.00	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 I	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Cash Credit II	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB-/Stable (Assigned)
Letter of Credit I	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Upgraded from ACUITE A4)
Letter of Credit II	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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