Press Release

Arfin India Limited

January 17, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 125.66 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** to the Rs. 125.66 crore bank facilities of Arfin India Limited (AIL). The outlook is **'Stable'**.

AIL was incorporated in 1992 by Mr. Mahendra R. Shah (Chairman) at Ahmedabad (Gujarat). The company is mainly engaged in the business of manufacturing and supply of aluminium products from aluminium scrap. It manufactures aluminium doex, ingots, alloys, cored wire, conductors, cables and ferro alloys products. The company caters to various industries such as steel, automobile, power and foundry industry. The company has manufacturing facilities located at Chhatral in Gandhinagar district (Gujarat) with installed capacity of 55,700 MTPA. The company also has branch and marketing offices located at Hospet (Karnataka), Salem (Tamil Nadu), Bhiwandi (Maharashtra), Faridabad (Haryana) and Rudrapur (Uttrakhand). During FY2018, Mahendra Aluminium Company Limited (MALCO) was amalgamated with AIL which was in same line of business.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of AIL to arrive at the rating. Since standalone financials of AIL during FY2018 also includes figures of MALCO on account of amalgamation, Acuité has consolidated the financials for previous two years i.e. FY2017 and FY2016 for the purpose of comparison.

Key Rating Drivers

Strengths

- **Experience management and reputed clientele**

  The company has established presence of over two decades in Aluminium industry since 1992. The key promoter has more than two decades of experience in the manufacturing of aluminium products, ferrous and non-ferrous metal from scrap. He is also assisted by his son, Mr. Jatin M. Shah (Managing Director) and other family members. AIL caters to reputed clients including JSW Steel, Tata and Bhushan Steel, Bhushan power and steel, Larsen & Toubro and Toyota Tsusho, among others. The extensive experience of promoters has helped AIL to build longstanding relationships with these clients and suppliers. Further, the management is well support by qualified and experienced second line of management.

- **Improving revenues, margins and geographically well diversified clientele**

  AIL's operating revenue has improved to Rs. 466.14 crore in FY2018 as compared to Rs. 367.63 crore in FY2017; growing at compounded annual growth rate(CAGR) of 24.35 percent since 2016. The operating and PAT margins have also improved to 9.75 percent and 4.66 percent in FY2018 from 8.54 percent and 3.90 percent in FY2017. The diversified product mix and focus on high margin value added products has helped the company to improve margins over the years. Further, improved margins is supported by global decline in raw material prices i.e. aluminum and economies of scale resulting from increase in sales volume. The company has Pan India presence (contributes 95 percent of total revenue) and also exports (contributes 5.00 percent of total revenue) to various countries such as Europe, Canada and Japan. The company has increased their exposure to exports and started tapping new markets.

- **Comfortable financial risk profile and healthy order book**

  The financial risk profile of AIL stood comfortable marked by tangible net worth of Rs. 90.52 crore as on 31 March, 2018 (including unsecured loans from promoters of Rs.8.09 crore) as against Rs. 65.64 crore as on 31 March, 2017(including unsecured loan from promoter of Rs.3.99 crore). The gearing (debt/equity) stood at 0.99 times as on 31 March, 2018 as against 0.96 times as on 31 March, 2017. The reason for increase in gearing is on account of debt funded capital expenditure undertaken by the company in FY2017 and FY2018. The interest coverage ratio is healthy at 4.51 times in FY2018 as against 3.38 times in FY2017. The debt service coverage ratio stood at 3.01 times in FY2018 as against 2.62 times in FY2017. Total outside liabilities to tangible net worth ratio stood at 1.43 times as on 31 March, 2018 as against 1.84 times as on 31 March, 2017. The net cash accruals for FY2018 stood at Rs. 23.26 crore as on 31 March, 2018. The net cash accruals to total debt ratio stood at 0.26 times in FY2018 and 0.25 times in FY2017. Further, AIL has healthy unexecuted order book of ~Rs.250.00 crore for FY2019, providing revenue visibility over near to medium term. Acuité believes that AIL will maintain its financial risk profile on the back of improvement in operating income and healthy generation of net cash accruals over the near to medium term.

Weaknesses

- **Customer and industry concentration risk**

  Despite of well diversified product portfolio and end user industry, AIL's major revenue comes from steel sector. Steel sector alone contributes to more than 70 percent of the total revenue in FY2018 and FY2017, exposing the company to industry concentration risk. Any impact in steel industry will have direct impact on operations and profitability of AIL. Further, AIL also faces high customer concentration risk as its top five customers contribute to more than 75.00 percent of the total revenue in FY2018 and FY2017. Acuité believes that major customers are reputed players in their respective industries and the company is adding new products every year to cater to different industries which will gradually reduce such risk to a certain extent over medium term.

- **Highly competitive industry and exposure to price volatility risk**

  The aluminum industry is highly competitive and fragmented marked by presence of large number of players and low entry barriers. AIL is also exposed to the risks associated with the industry cyclicality and has low bargaining power with customers. Also, the raw material prices are linked to international indices such as London Metal Exchange (LME); hence, the company is exposed to raw material price volatility risk due to volatility associated in the prices of aluminium affecting the operating margins of the company. However, the company is organised and established player in the industry and has necessary arrangements made to pass on the effect of such price fluctuations to its customers.

Liquidity position

AIL has adequate working capital limits of Rs. 81.50 crore which remained utilised at 90.00 percent in last six months ending December 2018. The company has also proposed for additional working capital limits of Rs. 38.50 crore which will ensure smooth functioning of operations and availability of adequate liquidity to the company. Further, the company has liquid investment of Rs. 7.76 crore as on 31 March, 2018 invested in fixed deposits and bonds which can be liquidated partly to support future repayment obligations, considering the moderate increase in debt over near to medium term.

Outlook: Stable

Acuité believes that AIL will maintain a 'Stable' outlook over the medium term from its established track record and experienced management. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt- funded capex or withdrawal of unsecured loans leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	466.14	367.63	301.48
EBITDA	Rs. Cr.	45.44	31.39	16.78
PAT	Rs. Cr.	21.70	14.34	7.00
EBITDA Margin	(%)	9.75	8.54	5.57
PAT Margin	(%)	4.66	3.90	2.32
ROCE	(%)	28.28	29.96	46.02
Total Debt/Tangible Net Worth	Times	0.99	0.96	1.17
PBDIT/Interest	Times	4.51	3.88	2.81
Total Debt/PBDIT	Times	1.95	1.97	2.17
Gross Current Assets (Days)	Days	133	152	145

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00*	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00#	ACUITE BBB+ / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.41	ACUITE BBB+ / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BBB+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+ / Stable

*Sub limits of Cash Credit Facility: Buyers Credit (LC) of Rs.9.00 Cr., LC/BG of Rs.2.00 Cr.

#Sub limits of Cash Credit Facility: EPC/PCFC/FBD/FBP of Rs. 8.00 Cr., Buyers Credit (LC) of Rs.9.75 Cr., BG of Rs.2.00 Cr.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Analyst - Rating Operations Tel: 022-49294032 rupesh.patel@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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