Press Release

Arfin India Limited

June 07, 2019

Rating Update

Total Bank Facilities Rated*	Rs. 125.66 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Negative (Reaffirmed and Outlook Revised)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** to the above mentioned bank facilities of Rs.125.66 crores for Arfin India Limited (AIL). The outlook is revised to '**Negative**' from **'Stable'.**

The revision in outlook is on account of decline in operating income coupled with significant decline in operating margins and consequent deterioration in debt coverage indicators in FY2019. The revenues have declined by ~11.43 per cent on Y-o-Y basis, while the operating margins stood at 5.62 per cent in FY2019 as against 9.75 per cent in FY2018. Further, the debt protection metrics of the company has significantly impacted marked by significant increase in Debt-EBITDA which stood at 4.35 times for FY2019 (Previous Year: 1.95 times) and deterioration in Interest coverage ratio (ICR) which stood at 2.02 times for FY2019 as against 4.51 in the previous year. The revision also factors in liquidity pressures emanating by increase in debt levels, significant decline in net cash accruals and deterioration in overall financial risk profile of the company in FY2019. However, rating continue to derive support from experience of AIL's promoters in the business of manufacturing ferrous and non-ferrous metals, moderate capital structure and established relationship with reputed clients.

AIL based Ahmedabad; Gujarat was incorporated in 1992 which is promoted by Mr. Mahendra Shah. It is engaged in the business of manufacturing largely aluminium products from aluminium scrap. The company also manufactures aluminium Doex and Ingots, Alloys and Ferro Alloys products, Cored Wire, Conductors and Cables. The manufacturing facilities of AIL is located at Chhatral in Gandhinagar district (Gujarat) with installed capacity of 55,700 MTPA. The company also has branch offices at Hospet (Karnataka), Salem (Tamilnadu), Bhiwandi (Maharashtra), Faridabad (Haryana) and Rudrapur (Uttrakhand).

AIL has presence in West, South, East and Northern zones of the country. The company also exports to foreign countries which include Europe, Canada and Japan. During FY2018, AIL had amalgamated its sister concern Mahendra Aluminium Company Limited (MALCO) which was in same line of business and net purchase consideration was Rs.6.86 crore which was settled in share swap.

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 its presence since 1992 and has established presence of over two decades in capital markets and Aluminium industry. The key promoter Mr. Mahendra R. Shah (Chairman) has more than two decades of experience in 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. The company is well support by qualified and experienced second line of management. AIL also caters to reputed clientele like 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 clients and suppliers.

- **Diversified product mix to cater needs of multiple industries**

  AIL has multiple product mix which includes Aluminium wire rod, Aluminium Dexo, Aluminium Alloy Ingots, Ferro Titanium, Cored Wire and Conductors. The Aluminium wire rod and Aluminium Dexo are two major products which contribute around 65.00 percent of the overall product portfolio. The diversified product mix helps company to cater the needs of various industry which includes steel, automobile, power and foundry industry. The company majorly caters to in domestic market with pan-India presence (95 percent of total revenue) and also exports (5.00 percent of total revenue) to various countries like Europe, Canada and Japan.

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

  The financial risk profile of AIL stood moderate marked by Rs. 94.32 crore as on 31 March 2019 as against Rs. 90.52 crore as on 31 March 2018 (including unsecured loans from promoters of Rs.8.09 crores). The gearing (debt/equity) stood at 1.18 times as on 31 March 2019 as against .0.99 times as on 31 March 2018. The reason for gearing to increase is on account of debt funded capital expenditure undertaken by the company in FY2018 and increase in additional working capital limits in FY2019. The interest coverage ratio is healthy at 1.84 times as on 31 March 2019 as against 4.51 times as on 31 March 2018 and 3.88 times as on 31 March 2018. The debt service coverage ratio stood at 1.49 times in FY2019 as against 3.01 times in FY2018. The weakening of debt coverage indicators is due to increase in debt levels on account of higher working capital intensity and sizeable capex undertaken by the company during FY2019. Total outside liabilities to tangible net worth ratio stood at 1.38 times as on 31 March, 2019 as against 1.43 times as on 31 March, 2018. The net cash accruals for FY2019 declined to Rs.8.60 crore as against Rs. 23.26 crore as on 31 March, 2018. The net cash accruals to total debt ratio stood at 0.08 in FY2019 as against 0.26 times in FY2018 and 0.25 times in FY2017.

  Further, AIL has healthy unexecuted order book of more than Rs.350.00 crore approx. for FY2020 providing revenue visibility over near to medium term. The company is expected to maintain its moderate financial risk profile on the back of availability of additional working capital limits and gradual diversification in its product portfolio to cater varied requirements across multiple industries which will improve overall liquidity profile over the near to medium term.

Weaknesses

- **Decline in revenue and profitability**

  AIL's operating income declined by 11.44 percent to Rs 412.88 crore in the year ended March 2019 as compared to Rs 466.21 crore during the previous year ended March 2018. The decline is primarily on account of lower sales volume during the year and reduced exposure to one of its key customer Essar Steel Ltd. (ESL). The Operating and PAT margins declined to 5.62 percent and 1.59 percent in FY2019 from 9.75 percent and 4.33 percent in FY2018. The decline is due to increase in overheads including demurrage charges paid on account of delay in lifting of imported raw material which was scheduled as per expected growth in sales volumes in last two quarters of FY2019. The delay in lifting of raw material was largely due to restricted availability of funds for working capital requirements and sizeable capex of around Rs.17.00 crore in FY2019, which was funded largely through internal accruals of the company. Acuité expects overall financial risk profile to improve going forward based on availability of additional working capital limits and healthy order book position.

- **Customer and industry concentration risk**

  AIL's product portfolio is well diversified and caters to multiple industry in domestic as well as international market. However, company faces customer and industry concentration risk. The major revenue comes from steel sector and contributes more than 70 percent of the total revenue in FY2019. The company's top five customers contribute to more than 75.00 percent of the total revenue in FY2018 and FY2019 which exposes AIL to customer concentration risk. Acuité believes major customers are reputed players in their respective industries and company is adding new products to cater to different industries which will reduce such risk to certain extent over medium term.

- **Highly competitive industry and exposure to price volatility risk**
  The aluminium industry is highly competitive and fragmented marked by presence of large number of players and low entry barriers. Hence the players operating in the industry has low bargaining powers with customers. The aluminium being a commodity product its prices is volatile in nature affecting the operating margins of the company. AIL is also exposed to the risks associated with the industry cyclicality. However, the company is organized 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 liquidity profile stood moderate during FY2019 which can be observed through decline in net cash accruals to Rs. 8.60 crore as against Rs. 23.26 crore in FY2018. The repayment obligation stood at Rs. 1.80 to 1.86 during last three years ending FY2019. The current ratio stood at 1.30 times as on 31 March 2019 as against 1.40 times as on 31 March 2018 and 1.37 times as on 31 March 2017. The liquidity profile was impacted due to restricted availability of funds for working capital requirements as well as on account of funding the sizeable capex undertaken during the year. The working capital limits stood utilized at 91.98 percent for last six months ending May 2019. However, AIL's liquidity has eased to some extent with sanction of additional bank limits towards the end of March 2019.

Outlook: Negative

Acuité has revised the outlook of AIL to 'Negative' based on decline in revenues, margins leading to deterioration in debt protection indicators, thereby leading to liquidity pressures emanating from increase in debt levels. The rating may be downgraded in case of continued moderation in its profitability margins impacting the liquidity and debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the scale of operations increases substantially while improving its profitability and improving its liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)*	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	412.88	466.14	449.45
EBITDA	Rs. Cr.	23.20	45.44	31.34
PAT	Rs. Cr.	6.56	21.70	14.34
EBITDA Margin	(%)	5.62	9.75	6.97
PAT Margin	(%)	1.59	4.66	3.19
ROCE	(%)	11.36	28.28	29.96
Total Debt/Tangible Net Worth	Times	1.10	0.99	0.96
PBDIT/Interest	Times	2.02	4.51	3.88
Total Debt/PBDIT	Times	4.35	1.95	1.97
Gross Current Assets (Days)	Days	140	133	126

**Audited as per abridged financials published on the stock exchange*

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
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Jan-2019	Cash Credit	Long Term	45.00	ACUITE BBB+/ Stable (Assigned)
	Cash Credit	Long Term	18.00*	ACUITE BBB+/ Stable (Assigned)
	Cash Credit	Long Term	32.00#	ACUITE BBB+/ Stable (Assigned)
	Term loan	Long Term	3.41	ACUITE BBB+/ Stable (Assigned)
	Term loan	Long Term	2.25	ACUITE BBB+/ Stable (Assigned)
	Proposed Cash Credit	Long Term	25.00	ACUITE BBB+/ Stable (Assigned)

**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.

*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	45.00	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00*	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00#	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00@	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.41	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)

**Sub limits of Cash Credit Facility: LC/BG of Rs.5.00 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
@Sub limits of Cash Credit Facility: EPC/PCFC/FBD/FBP of Rs. 5.00 Cr., Buyers Credit (LC) of Rs.12.50 Cr and BG of Rs.5.00 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:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II 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.