

Press Release

Arfin India Limited

January 06, 2020



Rating Downgraded and Withdrawn

Total Bank Facilities Rated*	Rs. 125.66 crore
Long Term Rating	ACUITE BBB (Downgraded from BBB+/Negative and Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded and withdrawn the long term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB+**' (**read as ACUITE triple B plus**) to the above mentioned bank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 rating withdrawal is in accordance with the Acuité's policy on withdrawal of rating and on account of request received from the company.

The revision in rating of the bank facilities of Arfin India Limited (AIL) is on account of decline in operating income, margins having significant impact overall financial risk profile of the company and consequent deterioration in debt coverage indicators in FY2019. The revision also factors in liquidity pressures emanating from significant decline in net cash accruals due to capex undertaken by the company, and challenges faced by AIL in maintaining healthy liquidity profile reflected in persistence high level of bank limit utilization. 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 (Uttarakhand).

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. Acuité has also consolidated Financials of Arfin India Limited (AIL) and Mahendra Aluminium Company Limited (MALCO) for FY2017 and FY2016 for the purpose of rating.

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 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 supported 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.

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.

- **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 cyclicalities. 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: Adequate

AIL liquidity profile stood adequate 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.

Rating Sensitivities

- Decline in revenue and Margins
- Efficient management of working capital operations
- Deterioration in financial risk profile

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	412.88	466.14
PAT	Rs. Cr.	6.56	21.70
PAT Margin	(%)	1.59	4.66
Total Debt/Tangible Net Worth	Times	1.10	0.99
PBDIT/Interest	Times	2.02	4.51

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>
- Consolidation Of Companies : <https://www.acuite.in/view-rating-criteria-22.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-Jun-2019	Cash Credit	Long Term	45.00	ACUITE BBB+/Negative (Reaffirmed and Outlook

				Revised)
	Cash Credit	Long Term	18.00*	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
	Cash Credit	Long Term	32.00#	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
	Cash Credit	Long Term	25.00@	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
	Term loan	Long Term	3.41	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
	Term loan	Long Term	2.25	ACUITE BBB+/Negative (Reaffirmed and Outlook Revised)
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: 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

*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 (Downgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00*	ACUITE BBB (Downgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	32.00#	ACUITE BBB (Downgraded and Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00@	ACUITE BBB (Downgraded and Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.41	ACUITE BBB (Downgraded and Withdrawn)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.25	ACUITE BBB (Downgraded and Withdrawn)

*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

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About Acuité Ratings & Research:

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