

Press Release

Arun Vyapar Udyog Private Limited

22 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.28.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook:Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.28.00 crore bank facilities of Arun Vyapar Udyog Private Limited. The outlook is '**Stable**'.

Arun Vyapar Udyog Pvt Ltd (AVUPL) incorporated in 1990 is engaged in the manufacturing and trading of Thermo Mechanical Treatment (TMT) bars of 8mm to 32mm in diameter under the brand name 'Arun TMT' at its manufacturing unit at Gummidipoondi, Tamil Nadu. The installed capacity stands at 1,20,000 MT per annum. AVUPL has associate concerns namely Arun Smelters Pvt Ltd (Manufacturing of MS Billets) and Sri Annapurna Re-rolling Private Limited (Manufacturing of 6mm TMT bars).

Analytical approach:

SMERA has considered the consolidated business and financial risk profiles of Arun Vyapar Udyog Pvt Ltd (AVUPL) with Arun Smelters Pvt Ltd and Sri Annapurna Re-rolling Private Limited owing to the common management and significant operational linkages.

Key rating drivers

Strengths

Experienced management and long track record of operations: AVUPL was incorporated in 1990 by Mr. Umesh Madan and Mr. Deepak Madan. The promoters have almost three decades of experience in the iron and steel industry.

Partly integrated group: AVUPL has associate concerns namely Arun Smelters Pvt Ltd (Manufacturing of MS Billets) and Sri Annapurna Re-rolling Private Limited (Manufacturing of 6mm TMT bars). Arun Smelters Pvt Ltd (ASPL) supplies MS Billets to AVUPL on a regular basis and both the entities are located in the same premises. ASPL supplied MS Billets amounting to 10.90 per cent of total purchases of AVUPL in FY2017. ASPL has installed capacity to produce 68,000 tons of billets per annum.

Efficient working capital management: The group has efficient working capital management, as reflected in the Gross Current Assets (GCA) of 82 days as on 31 March, 2017 compared to 93 days as on 31 March, 2016 due to low debtor and moderate inventory days. The Inventory days in FY2017 stood at 45 compared to 51 in FY2016. The receivable days in FY2017 stood at 29 as against 31 in FY2016. The group offers credit period of up to 30 days to its customers.

Weaknesses

Average financial risk profile: The average financial risk profile of the group is marked by moderate net worth, high gearing levels and modest debt protection metrics. The net worth stood at Rs.20.92 crore as on 31 March, 2017 as compared to Rs.16.95 crore as on 31 March, 2016. The gearing improved from 2.42 times as on 31 March, 2016 to 1.99 times as on 31 March, 2017 due to accretion to reserves. The group has short term debt of Rs.29.09 crore and unsecured loans of Rs.10.55 crore as on 31 March, 2017. The coverage indicators such as Interest Coverage Ratio (ICR) declined to 1.95 times as on 31 March, 2017 compared to 2.08 times as on 31 March, 2016 due to decline in operating profitability. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.10 times as on 31 March, 2017.

Vulnerability of margins to fluctuations in the prices of metal and steel: The profitability is susceptible to volatility in raw material prices of iron and steel products. The group operates in a highly fragmented and competitive industry with a large number of organised and unorganised players.

Outlook – Stable

SMERA believes that the outlook on the group will remain ‘Stable’ over the medium term on account of the experienced management. The outlook may be revised to ‘Positive’ if the financial risk profile of the group improves substantially. Conversely, the outlook may be revised to ‘Negative’ in case of further deterioration in the financial risk profile.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	254.68	221.24	264.20
EBITDA	Rs. Cr.	9.13	8.45	6.96
PAT	Rs. Cr.	2.65	2.93	2.70
EBITDA Margin	(%)	3.59	3.82	2.64
PAT Margin	(%)	1.04	1.32	1.02
ROCE	(%)	13.03	14.74	24.62
Total Debt/Tangible Net Worth	Times	1.99	2.42	2.19
PBDIT/Interest	Times	1.95	2.08	1.89
Total Debt/PBDIT	Times	4.37	4.35	4.44
Gross Current Assets (Days)	Days	82	93	80

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Criteria for Consolidation: <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable): None

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	13.00	SMERA BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3 (Assigned)

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ABOUT SMERA

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