

Press Release

Arun Vyapar Udyog Private Limited

April 17, 2019



Rating reaffirmed

Total Bank Facilities Rated*	Rs. 28.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Rating Reaffirmed; Outlook Revised)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 28.00 crore bank facilities of Arun Vyapar Udyog Private Limited (AVPL). The outlook is revised from '**Stable**' to '**Negative**'.

AVPL, incorporated in 1990, is engaged in manufacturing and trading of Thermo Mechanical Treatment (TMT) bars under the brand name 'Arun TMT' at its manufacturing unit in Gummidipoondi (Tamil Nadu). The company is manufacturing TMT bars of different ranges from 8mm to 32mm dia. The company currently has rolling mill capacity of 1,20,000 MT per annum. AVPL has associate concerns, namely, Arun Smelters Private Limited (Manufacturing of MS Billets) and Sri Annapurna Re-rolling Private Limited (Manufacturing of 6mm TMT bars).

About the Group

AVPL has associate concerns, namely, Arun Smelters Private Limited (Manufacturing of MS Billets) and Sri Annapurna Re-rolling Private Limited (SRPL) (Manufacturing of 6mm TMT bars). Arun Smelters Private Limited (ASPL) supplies MS Billets to AVPL on a regular basis and both the entities are located in the same premises. ASPL supplied 14.90 per cent of total purchases of AVPL in FY2018. ASPL has installed capacity to produce 68,000 tons of billets per annum and SRPL has installed capacity of 3,600 MTPA.

Analytical Approach

Acuité has considered the consolidation of business and financial profiles of Arun Vyapar Udyog Private Limited with Arun Smelters Private Limited and Sri Annapurna Re-rolling Private Limited, together referred to as 'The Group'. The consolidation is due to common management and strong operational and financial synergies. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

AVPL 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. The company has manufacturing facility located in Gummidipoondi (Tamil Nadu) with installed capacity of 1,20,000 tons per annum.

Acuité believes that the group will benefit from experienced management which will help the company to maintain long standing relations with its customer and suppliers.

- Moderate financial risk profile**

The financial risk profile of the Group is moderate marked by moderate net worth, high gearing levels and moderate debt protection metrics.

Net worth stood at Rs.14.55 crore as on March 31, 2018 as compared to Rs.12.80 crore as on March 31, 2017. The gearing has improved to 2.23 times as on March 31, 2018 from 2.70 times as on March 31, 2017 due to accretion to reserves. The Group has followed a moderately aggressive debt policy as reflected in the peak gearing of 3.41 times as on March 31, 2018. The group has total debt of Rs.32.26 crore for

FY2018 which consist of working capital borrowing of Rs.9.80 crore, term loan of Rs.1.05 crore and unsecured loan from friends and relatives and other financial institutions of Rs.21.41 crore as on March 31, 2018. Coverage indicators such as Interest Coverage Ratio (ICR) stood at 2.72 times as on March 31, 2018 as compared to 2.61 times as on March 31, 2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.10 times as on March 31, 2018.

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

Weaknesses

• Moderate working capital operations

The group operates in a moderate working capital nature marked by Gross Current asset (GCA) days of 112 for FY2018 as against 82 days for FY2017. This is majorly on account of inventory and debtor days of 62 and 36 respectively for FY2018. Other current assets of Rs.11.31 crore for FY2018 comprises mainly of deposits. Acuité believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

• 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.

Liquidity position:

The group has moderate liquidity marked by moderate net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs.3.19-4.36 crore during the last three years through 2017-18, while the maturing debt obligations were in the range of Rs.0.75-0.91 crore over the same period. The cash accruals are estimated to remain around Rs.3.50-5.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.31 crore. The group maintains cash and bank balances of Rs.0.46 crore as on March 31, 2018. The current ratio stood moderate at 1.24 times as on March 31, 2018. Acuité believes that the liquidity of the group is likely to remain moderate over the medium term on account of no major repayments over the medium term.

Outlook: Negative

Acuité believes that the outlook on the group will remain 'Negative' over the medium term owing to decline in profitability and high leverage and elongation in working capital cycle. The rating may be further downgraded in case of further decline in the operating margins or further deterioration in the working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the group registers sustained growth in revenues while improving margins and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	277.17	254.68	221.24
EBITDA	Rs. Cr.	5.77	7.13	6.80
PAT	Rs. Cr.	1.68	2.65	2.93
EBITDA Margin	(%)	2.08	2.80	3.07
PAT Margin	(%)	0.61	1.04	1.32
ROCE	(%)	9.42	12.69	27.23
Total Debt/Tangible Net Worth	Times	2.23	2.70	3.41
PBDIT/Interest	Times	2.72	2.61	2.71
Total Debt/PBDIT	Times	5.28	4.58	4.48
Gross Current Assets (Days)	Days	112	82	93

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-ups.

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Jan-2018	Cash Credit	Long Term	13.00	ACUITE BBB-/ Stable (Assigned)
	Letter of Credit	Long Term	15.00	ACUITE A3 (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	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- / Negative (Rating Reaffirmed; Outlook Revised)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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