

Press Release

Arun Vyapar Udyog Private Limited

September 08, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.00	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	15.00	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	28.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded long-term rating from '**ACUITE BB+ (read as ACUITE double B plus)**' to '**ACUITE BBB- (read as ACUITE triple B minus)**' and short term rating from '**ACUITE A4+ (read as ACUITE A 4 plus)**' to '**ACUITE A3 (read as ACUITE A three)**' on Rs.28.0 crore of bank facilities of Arun Vyapar Udyog Private Limited (AVUPL). The outlook is '**Stable**'.

Rationale for upgrade

The upgrade in ratings are on account of improvement in total operating income along with profitability level resulting in comfortable financial risk profile. The rating also factors in efficient working capital management coupled with adequate liquidity and established track record of operations. The group also takes into account established track record of operations with experienced promoter. The above ratings are, however underpinned by declining operating profit margin led by intense competition in industry and geographical concentration of business.

About the Company

Arun Vyapar Udyog Pvt Ltd (AVUPL) 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 in different ranges from 8mm to 32mm dia TMT bars.

Directors of Arun Vyapar Udyog Private Limited are Ramasamy Packiam, Subhash Chandra Goel, Ramgopal Goel, Dhaneshwar Singh, Arun Madan, Umesh Kumar Madan, Ramachandran Manokaran, the company currently has rolling mill capacity of 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.

Analytical Approach

Acuite has considered standalone financial and business risk profile of Arun Vyapar Udyog Private Limited.

Key Rating Drivers

Strengths

Continuous improvement in financial performance during FY20-22 (Prov.)

The financial performance of the company improved during FY22, wherein total operating income of the company increased by ~29%, from Rs.238.07 crore in FY21 to Rs.309.37 crore in FY22. In line with increase in operating revenue, operating profit of the company also remained at similar level with marginal improvement from Rs.6.93 crore in FY21 to Rs.7.85 crore in FY22 (Prov.). The net profit also remained at similar level at Rs.1.06-1.66 crore in FY21-22 with marginal improvement. The net profit margin improved marginally by 9 bps to 0.54% in FY22 (Prov.).

Acuite believes that financial performance of the company is expected to improve going ahead, led by increase in demand.

Comfortable financial risk profile

The capital structure of the company continues to remain at comfortable level with debt-equity ratio below unity. The tangible net worth of the company increased to Rs.35.63 crore as on March 31, 2022 (Prov.) as against Rs. 33.97 crore as on March 31, 2021, led by accretion of profit to reserves. The interest coverage also improved marginally led by decline in operating profit coupled with decline in interest cost. The net cash accruals to total debt remained unchanged at 0.13 times in FY21-22 (Prov.). The total outstanding liability to tangible net worth moderated marginally to 1.36 times in FY22 (Prov.) to 1.26 times in FY21, led by increase in trade payables. The debt-EBITDA also moderated to 2.94 times in FY22 (Prov.) vis-à-vis 2.66 times in FY21, led by increase in unsecured loan (unsubordinated portion).

The company is not planning to avail any additional debt. Hence, the financial risk profile is expected to improve in medium term led by increase in tangible net worth coupled with repayment of existing term loan.

Efficient working capital utilisation

The gross current asset days of the company improved to 80 days in FY22 (Prov.) as against 91 days in FY21. The company sells its product through distributor network spread across Chennai. The company also receives advance payment against sale and remaining amount is received within 1-2 months. Further, the company also receives credit period of 26-30 days from its suppliers. The company procures around 25% of raw material majorly from Singapore and remaining is domestically procured, from Tamil Nadu. The working capital utilisation for the past 6 months ending March 2022 remained at ~27%.

Weaknesses

Moderation in EBITDA margin

the EBITDA margin moderated marginally to 2.54 times in FY22 vis-à-vis 2.91 times in FY21. The same is due to increase in raw material price over the past years and the same is not being able to be transferred to customers due to intense competition.

Geographical concentration

The company derives 100% revenue from Tamil Nadu and has tie-up with 3-4 distributors through which sale is made.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Significant Improvement in revenue and profitability margins.

>Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.

Material covenants

None

Liquidity Position: Adequate Adequate

The liquidity profile of the company continues to remain at adequate level led net cash accruals of Rs.3.04 crore as against debt repayment obligation of Rs.0.26 crore. The company also maintains cash and bank balance of Rs.0.11 crore as on March 31, 2022 (Prov.). The current ratio continues to remain above unity at 1.60-1.70 times during FY21-22. The net cash accruals are expected to remain at Rs.3-4.0 crore as against debt obligation of Rs.0.42 crore during FY23-24.

Outlook: Stable

Acuité believes that the outlook of the 'AVUPL' will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	309.37	238.07
PAT	Rs. Cr.	1.66	1.06
PAT Margin	(%)	0.54	0.44
Total Debt/Tangible Net Worth	Times	0.66	0.56
PBDIT/Interest	Times	1.78	1.51

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 May 2022	Letter of Credit	Short term	15.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	13.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)

22 Feb 2021	Letter of Credit	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
24 Jun 2020	Letter of Credit	Short Term	15.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	13.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
17 Apr 2019	Cash Credit	Long Term	13.00	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
22 Jan 2018	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- Stable Upgraded
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 Upgraded

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About Acuité Ratings & Research

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