

Press Release

VARDHMAN SALES AGENCY

07 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 41.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as SMERA BB) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 41.00 crore bank facilities of VARDHMAN SALES AGENCY. The outlook is '**Stable**'.

The New Delhi-based Vardhman Sales Agency (VSA) was established in 1988 as a partnership firm by Mr. Naveen Jain and Mr. Vipin Jain. The firm is led Mr. Naresh Kumar Jain and his son, Mr. Akshay Kumar Jain. The firm trades in various non-ferrous metals such as aluminium, zinc, brass and copper scrap. The warehouse facility is located at Faridabad.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

VSA was established in 1988 as a partnership firm. The partner, Mr. Naresh Jain possesses almost three decades of experience in the manufacturing and trading of ingots (made up of Aluminium and Zinc scrap). Mr. Akshay Kumar Jain has almost a decades experience in the industry.

- **Comfortable working capital cycle**

The working capital cycle is comfortable at 24 days in FY2017 as against 21 days in FY2016 mainly on account of low inventory holding period of 7 days in FY2017 as against 8 days in FY2016. The debtor days stood at 22 days in FY2017 and 15 days in FY2016. The creditor days stood at 5 in FY2017 and 2 in FY2016. The GCA days are also comfortable at 47 days in FY2017 as against 30 days in FY2016.

Weaknesses

- **Average financial risk profile**

The firm has average financial risk profile marked by low networth of Rs.10.29 crore as on 31 March, 2017 as against Rs.11.72 crore in the previous year. The adjusted gearing stood at 1.81 times as on 31 March, 2017 as against 0.94 times in the previous year. The Interest Coverage ratio stood at 1.76 times for FY2016-17 as against 1.86 times in the previous year. The TOL/TNW stood at 2.15 times as on 31 March, 2017 as against 1.09 times in the previous year. The net cash accruals stood at Rs. 1.36 crore in FY2017 as against Rs. 1.34 crore in FY2016. The NCA/TD stood at 0.07 times in FY2017 as against 0.12 times in FY2016.

- **Volatility in raw material prices**

VSA is engaged in the trading of non-ferrous metals such as aluminium, zinc, brass and copper. However, aluminium contributes more than 75 per cent to the firm's total revenues. The firm imports these products from the Middle East, Europe and US. Thus, the firm is exposed to risk of volatility in prices thereby affecting margins.

- **Significant business exposure to group companies**

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The firm generates approximately 60 per cent of its revenue from group companies, Namo Alloys Private Limited and 18 per cent from Akshay Aluminium Alloys Private Limited thus resulting in high risk of customer concentration.

• Competitive and fragmented nature of business

The firm operates in a highly competitive and fragmented industry with several organised and unorganised players limiting the bargaining power of the firm.

• Risk of capital withdrawal

The firm is exposed to risk of capital withdrawal due to its partnership constitution.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of VSA to arrive at the rating.

Outlook: Stable

SMERA believes that VSA will maintain a 'Stable' outlook over the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm registers higher than expected revenue and liquidity position while maintaining profitability margins. Conversely the outlook will be revised to 'Negative' in case of significant decline in revenue and profitability or higher than expected debt funded working capital requirements leading to strain on its debt servicing ability.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	213.20	231.73	278.05
EBITDA	Rs. Cr.	2.81	2.59	3.78
PAT	Rs. Cr.	1.19	1.16	1.40
EBITDA Margin	(%)	1.32	1.12	1.36
PAT Margin	(%)	0.56	0.50	0.50
ROCE	(%)	11.50	11.78	32.77
Total Debt/Tangible Net Worth	Times	1.81	0.94	1.57
PBDIT/Interest	Times	1.76	1.86	1.64
Total Debt/PBDIT	Times	5.93	3.81	3.58
Gross Current Assets (Days)	Days	47	30	27

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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	10.00	SMERA BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

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ABOUT SMERA

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