

Press Release

Vardhman Sales Agency

May 17, 2019



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 41.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB /Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BB**' (read as ACUITE double B) and reaffirmed the short term rating at '**ACUITE A4+**' (read as ACUITE A four plus) to the Rs. 41.00 crore bank facilities of Vardhman Sales Agency (VSA). The outlook is '**Stable**'.

The rating upgrade takes into account significant growth in revenues, comfortable financial risk profile marked by comfortable gearing and coverage indicators. Further, the upgrade is also supported by improvement in the working capital cycle on account of lower inventory and better realisation from customers.

New Delhi based, VSA was established in 1988 as a partnership firm by Mr. Naveen Jain and Mr. Vipin Jain. Currently, it is managed by Mrs. Rachna Kumar Jain and her son, Mr. Akshay Kumar Jain. The firm is engaged in trading of various ferrous and non-ferrous metals such as aluminium, zinc, brass, and copper scrap. Warehouse facility of the firm is located in Faridabad.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Vardhman Sales Agency to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced promoters

VSA is in the said line of business since 1988. The current partners, Mrs. Rachna Kumar Jain and Mr. Akshay Kumar Jain have more than two decades of experience in this Industry. Experience of the partners has helped the firm in adding new clientele every year and maintaining healthy relationship with the existing customers. The same has helped in revenue growth, which improved from Rs.213.20 crore in FY2017, Rs.230.10 crore in FY2018 and to Rs. 271 crore in FY2019 (Provisional). Acuité believes that VSA continues to enjoy the benefit from the experience of the management over the medium term.

• Comfortable financial risk profile

Financial risk profile of the firm is comfortable marked by comfortable gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protections metrics. Gearing and TOL/TNW are comfortable at 0.40 and 1.01 times as on 31 March, 2019 (Provisional) as against 2.24 and 2.79 times as on 31 March, 2018. Net worth is moderate at Rs.16.03 crore as on 31 March, 2019 (Provisional) as against Rs.10.22 crore as on 31 March, 2018. The total debt constitutes only the short term debt of Rs. 6.48 crore in FY2019 (Provisional) as against Rs. 22.91 crore in FY 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt improved to 3.61 times and 0.42 times in FY2019 (Provisional) from 1.75 times and 0.07 times in FY2018 respectively. Acuité believes that with modest accruals of about Rs.1.50 crore vis-a-vis no debt repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

- **Comfortable working capital operations**

The firm's working capital operations are efficiently managed as reflected by gross current asset (GCA) at 38 days for FY 2019 (Provisional) as compared 56 days for FY 2018. This is mainly on account of lower inventory and improving realisations from debtors. Debtors stood at 17 days in FY2019 (Provisional) as against 21 days in FY2018. This led to moderate utilisation of its bank lines at about 80-85 percent for the last eleven months through February 2019. Acuité believes that with improving accruals and GCA, the firm will have a comfortable working capital cycles over the medium term.

Weaknesses

- **Volatility in raw material prices**

VSA is engaged in trading of various non-ferrous metals such as aluminium, zinc, brass, and copper. The firm imports these products from suppliers in the Middle East, UK and the US. Thus, the firm is always exposed to the risk of volatility in the prices thereby affecting its margins.

Liquidity Profile:

Liquidity of VSA is comfortable marked by comfortable cash accruals against no repayment obligations. It has reported cash accruals of Rs.1.50 crore in FY2018. Its expected cash accruals are in the range of Rs.2.8-4.3 crore over the medium term. Its GCA is efficiently managed, which lead to moderate utilisation at about 80-85 percent for the last eleven months through February 2019. Acuité believes that the liquidity profile continues to be comfortable marked by moderate accruals and improving working capital cycle.

Outlook: Stable

Acuité believes that VSA will maintain 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenues and improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	230.10	213.20	232.04
EBITDA	Rs. Cr.	3.19	2.58	2.96
PAT	Rs. Cr.	1.34	1.19	1.15
EBITDA Margin	(%)	1.39	1.21	1.27
PAT Margin	(%)	0.58	0.56	0.50
ROCE	(%)	10.79	10.61	23.79
Total Debt/Tangible Net Worth	Times	2.24	1.81	0.94
PBDIT/Interest	Times	1.75	1.87	1.86
Total Debt/PBDIT	Times	6.54	6.40	3.82
Gross Current Assets (Days)	Days	56	49	30

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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.)	Rating Action/Outlook
07-Mar-2018	Cash Credit**	Long Term	7.00	ACUITE BB / Stable
	Letter of Credit*	Short Term	10.00	ACUITE A4+
	Letter of Credit#	Short Term	8.00	ACUITE A4+
	Bills Discounting	Short Term	1.00	ACUITE A4+
	Letter of Credit^	Short Term	5.00	ACUITE A4+
	Letter of Credit***	Long Term	10.00	ACUITE BB / Stable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating Action/Outlook
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+ / Stable
Cash Credit**	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+ / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+
Letter of credit***	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+
Letter of credit#	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+
Letter of credit^	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+

* includes sublimit of ODBD of Rs. 7.00 crore, Goods in transit of Rs. 3.00 crore and advance remittance for purchase of material and trust release of goods of Rs. 1.00 crore.

** includes sublimit of Foreign Letter of credit of Rs. 7.00 crore and Buyers credit of Rs. 7.00 crore.

*** includes sublimit of LOU of Rs.5.00 crore and Bank guarantee of Rs. 0.50 crore.

includes sublimit of buyer's credit of Rs. 8.00 crore.

^ includes sublimit of forex forward limit of Rs. 3.00 crore.

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About Acuité Ratings & Research:

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