

Press Release

Vardhman Sales Agency

September 07, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.34.88 Cr.
Long Term Rating	ACUITE BB/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A Four plus**) on the Rs.34.88 Cr. bank facilities of Vardhman Sales Agency (VSA). The outlook is '**Stable**'

Rationale

The reaffirmation of ratings takes into account experienced and established track record of the partners, improved profitability margins and adequate liquidity position. However, the ratings are constrained by small scale of operations, decline in total operating income, risk of capital withdrawal, working capital intensive nature of operation and leveraged financial risk profile.

About the rated entity

VSA is a Delhi based partnership firm set up in 1988 by Ms Rachna Jain. The firm is engaged in trading of various ferrous and non-ferrous metals such as aluminum, zinc, brass and copper scrap. In addition to this, the firm has also initiated trading of e-waste during mid FY20. The e-waste is imported from foreign countries and are sold to domestic companies which is engaged in recycling of e-waste. The firm is involved in B2B trading and caters to customers usually involved in steel and aluminum manufacturing and e-waste management.

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of Vardhman Sales Agency (VSA) to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and established track record of operation**

VSA was established in 1988 by Ms. Rachna Jain and Akshay Jain. The firm is involved in trading business for more than three decades and thus, has established presence in market. The long track record of the firm has enabled in forming strong clientele relationship and immune to various economic cycle.

- **Increase in profitability margins**

During mid-FY20, the firm had entered into trading of e-waste which involves higher margin as compared to that of steel and other metal products. This, resulted in increase in operating profit to Rs.5.04 crore in FY21(Prov.) from Rs.4.44 crore in FY20. Consequently, operating margins almost doubled from 2.22% in FY20 to 4.26% in FY21(Prov.). In line with operating profit, net profit also improved from Rs.2.61 crore in FY20 to Rs.3.48 crore in FY21 (Prov.). Hence, PAT margin also improved during the year. Acuite believes, that the profitability margin of the firm is expected to be on improving trend, given the firm's entry in trading of e-waste

Weaknesses

• Leveraged financial risk profile

The capital structure of the firm remains leveraged, with debt-equity ratio of 3.36 times as on March 31, 2021 (Prov.) as against 5.98 times as on March 31, 2020. Albeit, the said ratio has improved on account of accretion of profit to reserves, it continues to remain on higher side, led by higher debt levels. The tangible net worth of the firm as on March 31, 2021 (Prov.) remained at Rs.8.76 crore vis-à-vis Rs.5.0 crore as on March 31, 2020. The interest coverage improved marginally to 3.45 times in FY21 as against 2.59 times in FY20 on account of lower interest cost. The total outstanding liability to tangible net worth improved significantly to 3.48 times as on March 31, 2021 vis-à-vis 7.19 times as on March 31, 2020, backed by decline in 'payables for goods' during FY21. Acuite believes, that the firm's ability to improve its debt-coverage ratio would be key monitorable factor.

• Decline in total operating income in FY21

The firm reported total operating income of Rs.118.22 crore during FY21 (Prov.) against Rs.199.67 crore in FY20 registering y-o-y de growth of 40.79%. The operations of the were halted during Apr-May 2020 due to COVID-19 pandemic and gradually recommenced from June 2021. The average sales in a year declined from Rs.16.39 crore in FY20 to Rs.9.85 crore in FY21.

However, the firm has already reported sales of Rs.62.12 crore during 4MFY22.

• Small scale of operations

The firm, despite its long track record of operation has modest tangible net-worth. This is due to firm being in competitive industry and drawings from capital accounts, which depletes the reserves and affects net-worth of the firm.

• Working capital intensive nature of operation

The Gross Current Asset of the firm remained at 63 days during FY21 as against 29 days during FY20. The inventory days increased to 63 days in FY21 against 29 days in FY20 on account of increase in inventory levels during FY21. The firm maintains inventory level depending on market condition and expected demand from the customer. On debtor's front, the payments are usually received between 30-40 days after the delivery has been made. The debtors' days remains skewed during FY21, despite similar debtors' levels as on March 31, 2021 to that of March 31, 2020. This is mainly due to decline in total operating in FY21 vis-a-vis FY20. The firm makes advance payments or at the time of delivery to the creditors. The average working capital utilization for past 11 months ending July 2021 remained at moderate level of around 55%. Acuite believes, that firm's ability to manage its working capital requirements would be key monitorable factor.

Rating Sensitivities-

- Improving scale of operations while improving profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

The liquidity position of the firm remains at adequate level with Net Cash Accruals of Rs.3.69 crore against debt repayment obligation of Rs.0.45 crore. Further, the firm is expected to generate Net Cash Accruals of Rs.3.58 to Rs.6.0 crore with repayment obligation of around Rs.0.6 crore over FY22-24, giving adequate liquidity cushion. The cash and bank balance remained at Rs.0.07 crore as on March 31, 2021. The current ratio of firm remained at Rs.2.5 times as on March 31, 2021 as against 1.34 times as on March 31, 2020. Acuite believes that the liquidity profile of the firm is expected to remain at adequate level, given its low debt repayment obligation.

Outlook: Stable

Acuite believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and im

provement in profitability margins, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	118.22	199.67
PAT	Rs. Cr.	3.48	2.61
PAT Margin	(%)	2.94	1.31
Total Debt/Tangible Net Worth	Times	3.36	5.98
PBDIT/Interest	Times	3.45	2.59

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>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading entities: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-July-2020	Cash Credit	Long Term	10.00	ACUITE BB (Downgraded; Issuer Not Cooperating)
	Cash Credit	Long Term	7.00	ACUITE BB (Downgraded; Issuer Not Cooperating)
	Bill Discounting	Short Term	1.00	ACUITE A4+; Issuer Not Cooperating
	Letter of Credit	Short Term	10.00	ACUITE A4+; Issuer Not Cooperating
	Letter of Credit	Short Term	8.00	ACUITE A4+; Issuer Not Cooperating
	Letter of Credit	Short Term	5.00	ACUITE A4+; Issuer Not Cooperating
17-May-2019	Cash Credit	Long Term	10.00	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Cash Credit	Long Term	7.00	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Bill Discounting	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Reaffirmed)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
	Letter of Credit	Short Term	8.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
07-Mar-2018	Cash Credit	Long Term	10.00	ACUITE BB/Stable (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BB/Stable (Assigned)
	Bill Discounting	Short Term	1.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Bank	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Kotak Mahindra Bank	Term Loan	September, 2020	8.90%	August, 2026	2.88	ACUITE BB/Stable (Reaffirmed)
Kotak Mahindra Bank	Cash Credit	Not Applicable	11.50%	Not Applicable	7.00	ACUITE BB/Stable (Reaffirmed)
Kotak Mahindra Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A4+ (Reaffirmed)
Kotak Mahindra Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Canara Bank	Cash Credit	Not Applicable	11.65%	Not Applicable	10.00	ACUITE BB/Stable (Reaffirmed)
Canara Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in
J Subhadra Senior Analyst – Rating Operations j.subhadra@acuite.in	

About Acuité Ratings & Research:

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