

Press Release

Aakaf Steel Private Limited

October 10, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 18.00 crore bank facilities of Aakaf Steel Private Limited (ASPL). The outlook is '**Stable**'.

The Gujarat based, Aakaf Steel Private Limited (erstwhile Aakaf Steel) was originally established as a proprietorship firm in 1992 which then merged with Aakaf Industrial Corporation and got converted into private limited company in 2000. The company is engaged in trading of iron and steel products mainly steel plates, channels, beams, bars, among others. The company is promoted by Mr. Abdul Kadir H. Memon, Mr. Abdul Gafar H. Nagani, Mr. Afzal Nagani and Mr. Mohamad Nagani.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Aakaf Steel Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

ASPL was established in 1992 as a proprietorship firm which got converted in private limited in 2000, thus having an operational track record of over three decades in trading business. The promoters have an experience of around three decades in the iron and steel industry. Hence, long track record of operations and vast experience of management has helped the company to develop healthy relationship with its customers and suppliers. The company deals with reputed suppliers such as Essar Steel India Limited, JSW Steel Limited and Shah Alloys Limited among others. Acuité believes that ASPL will sustain its existing business profile on the back of established track record of operations and reputed suppliers.

- **Moderate working capital operations**

The company's working capital operations are moderate as reflected in Gross Current Assets (GCA) of 96 days in FY2018 as against 114 days in FY2017. This is mainly because of debtors of 57 days in FY2018 as against 50 days in FY2017. The inventory of the company stood at 35 days in FY2018 as against 64 days in FY2017. Further, the company has net cash accruals of Rs.0.44 crore against no debt obligation in FY2018. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Weaknesses

- **Uneven trend in revenues and profitability**

ASPL has reported operating income of Rs.102.07 crore in FY2018 as against Rs.82.62 crore in FY2017 and Rs.96.76 crore in FY2016. Further, the operating margins stood at 2.28 percent in FY2018 as against 2.99 percent in FY2017. Profit after Tax (PAT) margin stood at 0.40 percent in FY2018 as against 0.44 percent in FY2017. The uneven trend is due to the company being susceptible to fluctuations in raw material prices i.e. steel prices and due to cyclical nature of steel trading industry.

- **Average financial risk profile**

The financial risk profile of the company remained average marked by net worth of Rs.7.38 crore as on 31 March, 2018 as against Rs.6.97 crore as on 31 March, 2017. The gearing stood at 2.42 times as on 31 March, 2018 as against 2.58 times as on 31 March, 2017. The total debt of Rs.17.84 crore as on 31

March, 2018 mainly comprises of Rs.13.61 crore of working capital facility and Rs. 4.23 crore of unsecured loans from directors. Interest Coverage Ratio (ICR) stood at 1.31 times for FY2018 as against 1.28 times for FY2017. TOL/TNW stood at 2.64 times in FY2018 as against 2.72 times in FY2017. Further, Debt to EBITDA stood at 7.64 times in FY2018 as against 7.22 times in FY2017.

• Competitive and fragmented industry

The company is exposed to inherent cyclicalities in the steel industry and has presence in a highly fragmented and competitive steel trading industry.

Outlook: Stable

Acuite believes that ASPL will maintain 'Stable' outlook over the medium term on the back of experienced management and reputed supplier base. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	102.07	82.62	96.76
EBITDA	Rs. Cr.	2.33	2.47	2.43
PAT	Rs. Cr.	0.41	0.36	0.36
EBITDA Margin	(%)	2.28	2.99	2.51
PAT Margin	(%)	0.40	0.44	0.37
ROCE	(%)	9.29	10.28	10.99
Total Debt/Tangible Net Worth	Times	2.42	2.58	2.55
PBDIT/Interest	Times	1.31	1.28	1.27
Total Debt/PBDIT	Times	7.64	7.22	6.88
Gross Current Assets (Days)	Days	96	114	93

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)

Not Applicable

***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	18.00	ACUITE BB- / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Priyal Jain Analyst - Rating Operations Tel: 02249294065 priyal.jain@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.