

Press Release

Aakaf Steel Private Limited

November 28, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 21.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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**'.

Further, Acuite has assigned short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 3.00 crore bank facilities of Aakaf Steel Private Limited (ASPL).

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 the constitution was changed to 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

Acuite has considered the standalone business and financial risk profiles of ASPL 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 and the constitution was changed to private limited company in 2000, thus having an operational track record of around three decades in trading business. The promoters have an experience of around three decades in the iron and steel industry. Hence, long track records 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. Acuite believes 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 for FY2018 as against 50 days for FY2017. The inventory of the company stood at 35 days for FY2018 as against 64 days for FY2017. Further, the company has net cash accruals of Rs.0.44 crore against no debt obligation in FY2018. Acuite 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 stood 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.17.85 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 as on 31 March, 2018 as against 2.72 times as on 31 March, 2017. Further, Debt to EBITDA stood at 7.64 times for FY2018 as against 7.22 times for FY2017.

• Competitive and fragmented industry

The company is exposed to inherent cyclicity 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 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 company's 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	20.81
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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Oct-2018	Cash Credit	Long Term	18.00	ACUITE BB- / Stable (Assigned)

***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 (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Assigned)

* Cash Credit includes sublimit of Letter of credit amounting to Rs. 6.00 crore.

Contacts

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About Acuité Ratings & Research:

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