

## Press Release

Aakaf Steel Private Limited

D-U-N-S® Number: 67-651-5030

November 27, 2019



### Rating Reaffirmed

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

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 21.00 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 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.

#### • Efficiently managed working capital operations

The company has efficiently managed working capital operations marked by Gross Current Assets (GCA) of 101 days for FY2019 as against 96 days for FY2018. The inventory holding period stood at 39 days for FY2019 as against 35 days for FY2018. The receivables days reduced to 48 days for FY2019 from 57 days for FY2018. Further, average bank limit utilization stood at ~74 percent for the past six months ended Sept 2019. Acuite believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

### Weaknesses

#### • Thin profitability

The operating margins have shown a declining trend and stood at 2.17 percent in FY2019 as against 2.28 percent in FY2018. This is mainly 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. Further, Profit after tax (PAT) margins stood thin at 0.37 percent in FY2019 as against 0.40 percent in FY2018.

#### • Average financial risk profile

The financial risk profile of the company has remained average marked by tangible net worth of Rs. 7.77 crore as on 31 March, 2019 as against Rs. 7.38 crore as on 31 March, 2018. The gearing (debt-to-equity) stood at 2.39 times as on 31 March, 2019 as against 2.42 times as on 31 March, 2018. The total debt outstanding of Rs. 18.60 crore as on 31 March, 2019 mainly comprises of working capital borrowings of Rs. 17.96 crore, unsecured loans of Rs. 0.58 crore and long term debt of Rs. 0.06 crore. The interest coverage ratio stood at 1.33 times for FY2019 as against 1.31 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) increased to 2.88 times as on 31 March, 2019 as against 2.64 times as on 31 March, 2018. The net cash accruals stood at Rs. 0.40 crore in FY2019 as against Rs. 0.41 crore in FY2018.

#### • 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.

#### Liquidity Position: Stretched

The company has stretched liquidity marked by low net cash accruals of Rs. 0.40 crore. The company has no maturing debt obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 0.50 crore to Rs. 0.80 crore during 2020-22 against no repayment obligation for the same period. Gross Current Asset (GCA) days stood moderate at 101 days for FY2019. The company maintains unencumbered cash and bank balances of Rs. 3.03 crore as on 31 March, 2019. The current ratio stood at 1.38 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals.

#### Rating Sensitivities

- Significant improvement in scale of operations
- Deterioration in working capital cycle.

#### Material Covenants

None

#### 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	108.47	102.07	82.62
EBITDA	Rs. Cr.	2.35	2.33	2.47
PAT	Rs. Cr.	0.40	0.41	0.36
EBITDA Margin	(%)	2.17	2.28	2.99
PAT Margin	(%)	0.37	0.40	0.44
ROCE	(%)	9.09	9.29	10.28
Total Debt/Tangible Net Worth	Times	2.39	2.42	2.58
PBDIT/Interest	Times	1.33	1.31	1.28
Total Debt/PBDIT	Times	7.91	7.64	7.22
Gross Current Assets (Days)	Days	101	96	114

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

Not applicable

#### Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
28-Nov-2018	Cash Credit	Long Term	18.00	ACUITE BB- / Stable (Reaffirmed)
	Bills Discounting	Short Term	3.00	ACUITE A4+ (Assigned)
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)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

\* Cash Credit includes sublimit of Letter of credit to the extent of Rs. 6.00 crore.

## Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Priyal Jain Analyst - Rating Operations Tel: 022-49294043 <a href="mailto:priyal.jain@acuite.in">priyal.jain@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

## About Acuité Ratings & Research:

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