

Press Release

Arun Steel Agencies

November 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 24.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) on the Rs. 24.50 crore bank facilities of Arun Steel Agencies (Arun Steel). The outlook is '**Stable**'.

Arun Steel Agencies established in 1994 is a proprietorship concern promoted by Mr. V.C Arunai Vadivelan. Arun Steel is the sole authorized distributor of JSW Steel Limited for exclusive supply of steel wire rod coils across the state of Tamil Nadu. The firm operates from its registered office in Chennai, and it has two warehouses in Chennai and one in Trichy (Tamil Nadu) for inventory stocking and distribution.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Arun Steel to arrive at this rating.

Key Rating Drivers

Strengths

Extensive experience of promoters and Long association with JSW

Mr. V.C Arunai Vadivelan has nearly three decades of experience in the field of steel trading. The firm is initially engaged in the trading of steel products like Bright Bars, HR Coils/Sheets till 2000. From 2001 onwards the firm is dealing only in Wire Rod coils. The firm has been dealing with JSW Steel Ltd since 2004, and long and healthy association with JSW supported in regular and steady supplies; leading to major revenue driver for the firm. Further, regular off-take by its vintage customers led to moderate growth in revenues over the past three years through FY2018 at a compound annual growth rate (CAGR) of 8.6 per cent at Rs.135.30 crores in FY2018. Acuité believes that Arun Steel will continue to benefit from its experienced promoter and long track record of operations in improving its business risk profile over the medium term. Further the revenue profile is expected to improve backed by regular off-take and moderate demand from the end user segment particularly automobile sector.

Efficient working capital management

The firm's operations are efficiently managed with gross current asset (GCA) days of about 70 -85 days historically; comprise of inventory days of about less than a month, and extends credit of about two months. Acuite believes that, being trading nature of operations with diversified client base, the working capital operations continues to be efficient and expected to be at similar levels over the medium term.

Weaknesses

Average financial risk profile

The financial risk profile of the firm is average, marked by modest networth, high gearing (debt-to-equity), high total outside liabilities to total networth (TOL/TNW) and comfortable debt protection metrics. The firm's gearing is high at 2.82 times as of March 31, 2018, though a marginal improvement from 3.66 times in FY2017. Its networth is modest at Rs.8.49 crores as of March 31, 2018. TOL/TNW is high at 2.84 times as on March 31, 2018 as against 4.10 times in FY2017; high being trading nature of operations and modest margins. However, its debt protection metrics are comfortable: Interest Coverage Ratio (ICR) at 3.29 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.22 times as on March 31. Acuite believes that the financial risk profile is expected to improve in the absence of debt-funded capex plans, nil repayment obligations and moderate accretions to reserves.

Highly fragmented and competitive business

The firm is in commoditised product with modest profitability margins. Further, its current profitability remains modest, given the low value-added nature of trading business and competition from dealers for other manufacturers in the segment.

Susceptibility to price fluctuation of steel products Prices

The Arun Steel Agencies' profitability margins are moderate in the range of 3.50 – 5.50 per cent over the past three years through FY2018; due to trading nature of operations. Further, volatile prices and commodity nature of products without any volume and value commitment from the customers is exposed to price sensitivity. Further, the prices of steel are linked to global prices, changes in inputs costs. However, the volatility in prices is to some extent offset by healthy inventory levels being maintained by the firm.

Outlook: Stable

Acuité believes that the outlook on Arun Steel Agencies will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	135.32	123.83	114.76
EBITDA	Rs. Cr.	7.43	5.72	4.01
PAT	Rs. Cr.	5.11	3.89	2.01
EBITDA Margin (%)	(%)	5.49	4.62	3.50
PAT Margin (%)	(%)	3.78	3.14	1.75
ROCE (%)	(%)	25.01	22.37	32.77
Total Debt/Tangible Net Worth	Times	2.82	3.66	5.09
PBDIT/Interest	Times	3.29	3.23	2.07
Total Debt/PBDIT	Times	3.22	3.64	5.02
Gross Current Assets (Days)	Days	86	84	74

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://acuite.in/view-rating-criteria-6.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	9.50	ACUITE BBB- / Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable (Assigned)

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About Acuité Ratings & Research:

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