

Press Release

Arun Steel Agencies

January 18, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 24.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB+**' (read as ACUITE double B plus) on the Rs. 24.50 Cr bank facilities of Arun Steel Agencies (Arun Steel). The outlook is '**Stable**'.

Arun Steel Agencies was established in 1994 as a proprietorship concern and is promoted by Mr. V.C Arunai Vadivelan. Arun Steel is an exclusive and sole distributor of JSW Steel Limited for exclusive supply of steel wire rod coils across Tamil Nadu. The firm has its registered office and 2 warehouses located in Chennai and 1 in Trichy (Tamilnadu) for stocking inventory. In 2018, Arun Steel Traders was re-constituted as a partnership concern by Mr V.C. Arunai Vadivelan along with his wife Ms Sasikala and his son Mr. Sujith.

Arun Steel Traders, part of the Arun Steel group, handles volumes of JSW for Coimbatore location. JSW, its key principal has given an overall volume of 21,600 metric tonnes (MOU) for both the firms without any segregation for FY2021.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of Arun Steel to arrive at the rating. Acuite has changed the analytical approach for the Arun Steel and Arun Steel Traders from consolidation to Standalone based on non-corporation for the rating by Arun Traders.

Key Rating Drivers

Strengths

• Extensive experience of promoters and long association with JSW

Mr. V.C Arunai Vadivelan has nearly 3 decades of experience in the field of steel trading. The firm was initially engaged in the trading of steel products such as Bright Bars, HR Coils/Sheets till 2000. From 2001 onwards, the firm has been dealing only in Wire Rod coils. The firm has been dealing with JSW Steel Ltd since 2004; long and healthy association with JSW steel supported in regular and steady supplies; leading to major revenue driver for the firm. It has longstanding relationships with its customers like ESAB India Limited, Standard Wire Products, Rasi Electrodes Ltd, Sri Chendur Industries, Precision Bright Steel Industries among other for repeated business. Acuité believes that Arun Steel will continue to benefit from its experienced promoter and long track record of operations and strong principle – JSW. Further, the revenue profile is expected to improve backed by regular off-take and moderate demand from the end user segment, particularly automobile sector.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the Arun Steel is moderate, marked by high gearing (debt-to-equity), high total outside liabilities to total networth (TOL/TNW) and moderate debt protection metrics. The networth of the entity is Rs. 10.17 Cr as on March 31, 2020 as against Rs.9.42 Cr in as on March 31, 2019. It's gearing is high at 2.68 times as of March 31, 2020 as against 3.04 times in as of March 31, 2019. TOL/TNW is high at 2.73 times in as of March 31, 2020 deteriorated from 3.13 times as on March 31, 2019; high being trading nature of operations and modest margins. Its debt protection metrics are moderate: Interest Coverage Ratio (ICR) at 1.97 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.10 in FY2020 vis-à-vis 2.09 and 0.10 times as on FY 2018. Net cash accruals for FY2020 stood at Rs.2.69 Cr. The Arun Steel's cash accruals are expected to be in the range of Rs.2.00-3.50 Cr with repayment obligations about Rs. Rs.0.50-0.60 Cr during the same period. Acuite believes

that trading nature of operations and moderate improvement in revenue profile is expected to constrain the financial risk profile over the medium term.

• Moderate working capital operations

Arun Steel's operations are moderately working capital intensive as evident from its GCA of about 135 days as on 31, March 2020 as against 86 days as on 31, March 2019 due to increase in debtor days from 68 days as on March 31, 2019 to 100 days as on March 31, 2020 and inventory days of about less than a month during last 3 years ended FY2020. Its creditor days are negligible due to cash and carry nature of its operations. High receivables, lead to high utilisation of its bank lines at about 85 per cent over past 6 months through October 2020. Acuité believes that Arun Steel's operations will continue to be working capital intensive.

• Highly fragmented and competitive business

The Arun Steel' profitability margins are moderate in the range of 3.50 – 5.50 per cent over the past 3 years through FY2020, due to trading nature of operations. The firm faces intense competition from other unorganised companies, primarily catering to replacement demand, at competitive rates. 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 due to changes in inputs costs. However, volatility in prices, to some extent, has been offset by moderate inventory levels being maintained by the group. Sustenance of the growth and profitability are key rating sensitivity factors over the medium term.

Liquidity Position: Adequate

Arun Steel has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations and moderate working capital management. Arun Steel reported cash accruals of Rs.2.69 Cr to 5.17 Cr as against repayment obligations are minuscule during the same period FY2018-FY2020. Arun Steel is expected to generate Rs.Rs.2.00 Cr to 4.00 Cr as against repayment obligations of Rs.0.50 Cr to 0.60 Cr during FY2021-FY2023. The firm's working capital operations have deteriorated marked by the increasing Gross Current Asset (GCA) days of 135 days as on 31, March 2020 as against 86 days as on 31, March 2019. This led to high the working capital limits of the entity remains utilized at ~85 percent during the last 6 months ended in October 2020. The current ratio of the entity stood comfortable at 1.43 times as on March 31, 2020. Acuité believes that the liquidity of the entity is likely to remain adequate over the medium term on account of sufficient cash accrual to service repayment obligations over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Any further large debt funded capital expenditure, impacting the financial risk profile adversely.
- Stretch in the working capital cycle

Material covenants

None

Outlook: Stable

Acuité believes that the outlook on Arun Steel 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 margins and improving its receivable cycle and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant unplanned debt-funded capital expenditure or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	95.99	161.30
PAT	Rs. Cr.	2.61	2.92
PAT Margin	(%)	2.72	1.81
Total Debt/Tangible Net Worth	Times	2.68	3.04
PBDIT/Interest	Times	1.97	2.09

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

None

Any other information

None

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
05-Jul-2019	Cash Credit	Long Term	9.50	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- /Stable)
	Overdraft	Long Term	10.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- /Stable)
	Cash Credit	Long Term	5.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- /Stable)
05-Nov-2018	Cash Credit	Long Term	9.50	ACUITE BBB- / Stable (Assigned)
	Secured Overdraft	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- / 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	8.00	ACUITE BB+ / Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ / Stable (Reaffirmed)
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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