

Press Release

Arun Steel Agencies

April 08, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.50	ACUITE BB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	24.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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'.

The rating is reaffirmed taking cognizance of firm's steady operational performance and moderate business risk profile supported by its established market position, a vast extensive experience of Management spanning over 3 decades in the steel trading industry, established relationship with its principles JSW Steel Ltd. However, the ratings are constrained by Arun Steel's high working capital intensive nature of its operations, low operating margin due to the trading nature of business, and a highly fragmented nature of the industry, characterised by intense competition. This, coupled with the cyclical nature associated with the steel industry, The ratings are further constrained by high geographical concentration risks, as a major portion of its sales is generated from Tamilnadu.

About the firm

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 warehouse located in Chennai and Trichy (Tamilnadu) for stocking inventory. In 2018, Arun Steel Traders was established as a partnership concern by Mr V.C. Arunai Vadivelan along with his wife Mrs. V A Sasikala and his son Mr. V A Sujeeth. 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

Acuite has taken a standalone view of the business and financial risk profile of Arun Steel to arrive at the rating.

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 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 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 offtake and moderate demand from the end user segment, particularly automobile sector. Acuité believes that the industry experience and domain knowledge of the management, long standing relationship with its clientele are expected to support its business risk profile over the medium term and Increase in scale of operations and improvement of operating profitability remain key rating sensitivity factors.

Above-Average financial risk profile

The financial risk profile of the firm is above average, marked by modest networth, high gearing (debt-to- equity), high total outside liabilities to total networth (TOL/TNW) and comfortable debt protection metrics. Its networth is modest at Rs.10.19 Cr as of March 31, 2021 as against Rs.10.17 Cr as of March 31, 2020. The firm's gearing is high at 2.56 times as on March 31, 2021 as against 2.68 times as on March 31, 2020. TOL/TNW is high at 2.58 times as on March 31, 2021 as against 2.73 times as on March 31, 2020. Its debt protection metrics are moderate: Interest Coverage Ratio (ICR) at 1.59 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.10 times for FY2021 vis-à-vis 1.97 times and 0.10 times respectively for FY2020. Acuité believes that the financial risk profile is expected to improve in the absence of debt-funded capex plans, nil repayment obligations.

Weaknesses

Working capital-intensive nature of operations

Arun Steel's operations are moderately working capital intensive as evident from its GCA of about 107 days as on 31, March 2021 as against 135 days as on 31, March 2020. It was primarily driven by stretched receivables and moderate inventory levels of 78 days and 17 days, respectively, as on March 31, 2021 vis-à-vis 100 days and 23 days, respectively, as on March 31, 2020. Its creditor days are negligible due to cash and carry nature of its operations and high receivables, lead to high utilisation of its bank lines at about 85 per cent over past 11 months through February 2022. Acuité believes that Arun Steel's operations will continue to be working capital intensive.

Highly fragmented and competitive business

Arun Steel' profitability margins are moderate in the range of 3.80 – 5.50 per cent over the past 3 years through FY2021, 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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Substantial improvement in scale of operations and profitability levels
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material covenants

None

Liquidity Position: Adequate

Arun Steel has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations; albeit constrained by working capital intensive nature of its operations. Arun Steel reported cash accruals of Rs.1.40 Cr to 2.00 Cr during FY19-21 as against miniscule repayment obligations are during the same period. Arun Steel is expected to generate Rs.2.00 Cr to 4.00 Cr during FY22-FY24 as against miniscule repayment obligations are during the same period. The firm's operations are working capital intensive marked by Gross Current Asset (GCA) days of 107 days as on 31, March 2021. This led to high the working capital limits of the entity remains utilized at ~85 percent during the last 11 months ended in February, 2022. The current ratio of the entity stood comfortable at 1.43 times and free cash and bank balance 0.70 Cr as on March 31, 2021. Acuité believes that the liquidity of the entity is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that the outlook on Arun Steel will remain 'Stable' over the medium term on account of its experienced management 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	110.93	95.99
PAT	Rs. Cr.	1.34	2.61
PAT Margin	(%)	1.21	2.72
Total Debt/Tangible Net Worth	Times	2.56	2.68
PBDIT/Interest	Times	1.59	1.97

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

LSIPL has not cooperated with Brick Work Ratings, which has classified the company as noncooperative through a release dated August 13, 2021. The reason provided by Brick Work Ratings is non-furnishing of information for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

- Application Of 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/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Jan 2021	Secured Overdraft	Long Term	8.00	ACUITE BB+ Stable (Reaffirmed)
	Inventory Funding	Long Term	5.00	ACUITE BB+ Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.50	ACUITE BB+ Stable (Reaffirmed)
05 Jul 2019	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	9.50	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Dropline Overdraft	Long Term	10.00	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 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 Kanjurmarg, Mumbai.

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