Press Release

Arihant Industries

May 13, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 9.06 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** to the Rs. 9.06 crore bank facilities of Arihant Industries (AI). The outlook is **'Stable'**.

Established in 1992, AI is a Gujarat-based partnership firm engaged in manufacturing of plastic decorative ceiling tiles. The firm is promoted by Mr. Hardik Sheth, Mr. Narendrabhai Sheth and Mrs. Sunandaben Sheth. The firm has its manufacturing unit located in Gujarat with installed capacity of manufacturing 5000 pieces per day. The firm majorly exports to USA.

Analytical Approach
Acuité has considered the standalone business and financial risk profiles of the AI to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**
AI was established in 1992 by Mr. Narendrabhai Sheth and is currently managed by Mr. Hardik Sheth. The firm has established track record of more than two decades in plastic decorative ceiling tiles. The promoters possess vast experience of over two decades in this industry. Acuité believes that AI will benefit from experienced management which will help the firm to maintain long standing relations with its customers and suppliers.

- **Comfortable financial risk profile**
The financial risk profile of the firm is comfortable marked by tangible net worth of Rs.10.24 crore as on 31 March, 2018 as against Rs.9.04 crore in the previous year. The gearing stood comfortable at 0.68 times as on 31 March, 2018 as against 0.01 times in the previous year. The total debt of Rs.6.99 crore includes term loan from bank of Rs.6.88 crore and unsecured loan of Rs.0.11 crore. Interest Coverage Ratio (ICR) and DSCR both stood at 5.17 times in FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood low at 0.82 times as on 31 March, 2018. The net cash accruals to total debt (NCA/TD) stood at 0.21 times in FY2018. Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Modest scale of operations with healthy profitability margins**
The firm has modest scale of operations despite having its presence in the industry for more than two decades marked by operating income of Rs.4.70 crore in FY2018 as against Rs.7.55 crore in FY2017 and Rs.5.14 crore in FY2016. The group booked revenue of Rs.8.39 crore for FY2019 (Provisional). Further, the firm's operating margins stood healthy at 32.73 percent in FY2018 as against 28.67 percent in FY2017. The company reported Profit after Tax (PAT) margin of 19.37 percent in FY2018 against 33.47 percent in FY2017. Acuité believes that the growth in revenue and absence of any capex plans are expected to support the profitability of the firm.

- **Working capital intensive operations**
  The firm operates in working capital intensive nature marked by Gross Current asset (GCA) of 396 days for FY2018 as against 124 days for FY2017. This is majorly on account of inventory holding of 147 days in FY2018 as against 37 days in FY2017. Acuité believes that the ability of the firm to efficiently manage its working capital requirements will remain key rating sensitivity.

Liquidity position:
The firm has adequate liquidity marked by the net cash accruals as compared to its maturing debt obligations. The firm generated cash accruals of Rs.0.90-2.62 crore during the last three years through 2017-18, while the maturing debt obligations were in the range of Rs.0.57 crore over the same period. The cash accruals are estimated to remain around Rs.4.40-5.32 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.69-1.53 crore. The firm maintains cash and bank balances of Rs.2.26 crore as on March 31, 2018. The current ratio stood moderate at 5.06 times as on March 31, 2018.

Outlook: Stable
Acuité believes that AI's outlook will remain 'Stable' over the medium term from its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while improving working capital cycle. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability, or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	8.39	4.70	7.55
EBITDA	Rs. Cr.	2.93	1.54	2.17
PAT	Rs. Cr.	1.14	0.91	2.53
EBITDA Margin	(%)	34.97	32.73	28.67
PAT Margin	(%)	13.62	19.37	33.47
ROCE	(%)	11.64	9.57	33.76
Total Debt/Tangible Net Worth	Times	0.72	0.68	0.01
PBDIT/Interest	Times	5.13	5.17	142.81
Total Debt/PBDIT	Times	2.81	3.84	0.04
Gross Current Assets (Days)	Days	198	396	124

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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	2.00	ACUITE BB-/Stable
Term Loans	Not Applicable	Not Applicable	Not Applicable	7.06	ACUITE BB-/Stable

Contacts

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Mumbai.