Press Release

Arun Steel Traders

August 19, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 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 plus)** on the Rs. 8.00 crore bank facilities of ARUN STEEL TRADERS (AST). The outlook is **'Stable'**.

About the company

In 2018, Arun Steel Traders (AST) was promoted as a partnership concern by Mr V.C. Arunai Vadivelan and his wife Ms Sasikala and his son Mr. Sujjeth, its partners. The firm handles volumes of JSW for Coimbatore location for exclusive supply of steel wire rod coils and Arun Steel Agencies for Coimbatore location. AST started its commercial operations in December, 2018. JSW, its principal has given an overall volume of 30600 metric tonnes (MOU) for both the firms without any segregation.

About the Group company

Arun Steel Agencies (ASA) established in 1994 as a proprietorship concern is promoted by Mr. V.C Arunai Vadivelan. Arun Steel is the sole authorised distributor of JSW Steel Limited for exclusive supply of steel wire rod coils across Tamil Nadu. The firm has its registered office and two warehouses located in Chennai and one is located at Trichy (Tamilnadu) for stocking inventory.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of ASA and AST (hereafter referred to as ARUN STEEL group or group) to arrive at the rating. The consolidation is on account of common promoters and same line of business. Extent of Consolidation: Full

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 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, 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 14.32 per cent at Rs.171.44 crores in FY2019 (Prov). Acuité believes that Arun Steel group 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 Group's operations are efficiently managed with gross current asset (GCA) days of about 90 days over the past three years; comprising of inventory days of about less than a month, and extending credit of about two months. Its bank limits are utilized to the extent of about 93 per cent for past six months ended March 2019. Acuité believes that been 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 group is average, 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 firm is Rs. 10.07 Crs in FY2019 (provisional) as against Rs.8.49 Crs in FY2018. The group's gearing is high at 2.84 times as of March 31, 2019 as against 2.82 times in FY2018. TOL/TNW is high at 3.42 times in FY2019 deteriorated from 2.84 times as on March 31, 2018; high being trading nature of operations and modest margins. Its debt protection metrics are comfortable: Interest Coverage Ratio (ICR) at 2.14 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.11 in FY2019 (provisional) vis-à-vis 3.29 and 0.22 times as on March 31, 2018. Net cash accruals for FY2019 stood at Rs.2.23 crore. The group's cash accruals are expected to improve and be in the range of Rs.3.50-4.00 crore with repayment obligations nil.

- **Highly fragmented and competitive business**
  The Arun Steel Agencies' profitability margins are moderate in the range of 3.50 – 5.50 per cent over the past three years through FY2019, due to trading nature of operations. However, the EBIDTA margins declined to 3.46 times in FY2019 (provisional) from 5.49 times in FY2018. 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

Liquidity of Arun Steel Group is adequate marked by generation of cash accruals of Rs.2.33 crore in FY2019; and Rs.5.17 Crs in FY2018. Arun Steel Group is expected to generate cash accruals in the range of Rs.3.50 to 4.00 crore over the medium term against nil repayment obligations. It has a conservative debt approach as working capital cycle is reflected by the group's moderate bank limit utilisation levels at 93.24 per cent for the past six months ended March 2019. The current ratio of Arun Steel Group is moderate at 1.36 times as on March 31, 2019. Acuité believes that the liquidity of A S group will continue to remain adequate supported by moderate accruals to backing the incremental working capital requirements.

Outlook: Stable

Acuité believes that the outlook on Arun Steel Group 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 or any significant unplanned debt-funded capital expenditure leading to deterioration of its capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	171.44	135.32	123.83
EBITDA	Rs. Cr.	5.93	7.43	5.72
PAT	Rs. Cr.	2.15	5.11	3.89
EBITDA Margin	(%)	3.46	5.49	4.62
PAT Margin	(%)	1.26	3.78	3.14
ROCE	(%)	16.46	25.01	22.37
Total Debt/Tangible Net Worth	Times	2.84	2.82	3.66
PBDIT/Interest	Times	2.14	3.29	3.23
Total Debt/PBDIT	Times	4.83	3.22	3.64
Gross Current Assets (Days)	Days	92	86	84

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

Not Applicable

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies-https://www.acuite.in/view-rating-criteria-22.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
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ / Stable
Proposed Channel Financing	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable

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About Acuité Ratings & Research:
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