

Press Release
Aryan Castings Private Limited

May 21, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE B/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (**read as ACUITE B**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.25.00 crore bank facilities of Aryan Castings Private Limited. The outlook is '**Stable**'.

Nashik based Aryan Castings Private Limited (ACPL) was initially incorporated on May 2011 by the original promoter Mr. Ahmed Laiwalla. In May 2018, the company was taken over by new promoters Mr. Ashish Agarwal and Mrs. Rekha Agarwal. The company is engaged in manufacturing of Mild Steel Billets (MS Billets).

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

ACPL is currently promoted by, Mrs. Rekha Agarwal who has an experience of over three decades and Mr. Ashish Agarwal who has an experience of around 5 years in the steel industry. Director, Mr. Ashish Agarwal along with his father Mr. Ashwani Agarwal, the chief financial officer of the company takes care of the company's daily accounting & finance transaction along with handling purchase and sale of products. The extensive experience of the promoters in the steel trading business has enabled the company to forge healthy relationships with customers and suppliers.

Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

Weaknesses

• Moderate financial risk profile

ACPL's financial risk profile is marked by its moderate net worth, gearing levels and debt protection measures. The net worth increased to Rs.16.44 crore as on 31 March 2019 on account of equity infusion by its new promoters. The gearing level stood at moderate levels of 1.18 times as on 31 March, 2019. The coverage indicators also remain moderate with interest coverage ratio (ICR) of 2.73 times in FY2019. Further, the company is highly leveraged with high Debt to EBITDA level of 7.00 times in FY2019. The moderate revenue generation coupled with moderate profitability level has resulted in net cash accruals of Rs.1.68 crore during FY2019.

Acuité believes that the financial risk profile will continue to remain moderate on account of moderate growth in revenues and profitability.

• Working Capital Intensive Operations

The operations of ACPL are working capital intensive reflected by Gross Current Assets (GCA) days of 75 days for FY2019, driven by inventory level of 50 days in the same period. Working capital requirement is funded through bank lines that have been fully utilised over the last six months.

Acuité believes that the operations of ACPL are likely to remain working capital intensive over the medium term.

- **Highly fragmented and intensely competitive industry**

The steel industry is marked by presence of large number of organized and unorganized players owing to low entry barriers. The company faces intense competition from the presence of several mid to large sized players in the said industry. The presence of large number of player's has direct impact on pricing, restricts bargaining power having adverse impact on margins.

Liquidity position: Stretched

The company has stretched liquidity on account of fully utilised bank limits. Working capital requirement is funded through bank lines that have been 100 percent utilised over the last six months ended April 2020 and there have been occasional overdrawings in the cash credit account of the company leading to penal interest charged by the lender indicating severely stretched liquidity. The current ratio stood at 1.69 times as on 31 March, 2019. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of full utilization of bank loans along with moderate scale of operations.

Rating Sensitivities

- Improvement in profitability and scale of operations backed by healthy demand in steel industry
- Any deterioration in the working capital management will have a negative bias on the rating

Outlook: Stable

Acuité believes that ACPL will continue to benefit over the medium term due to its established relations with its customers. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels. Conversely, the outlook may be revised to "Negative", if company generates lower-than-anticipated cash accruals or further deterioration in its liquidity position most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	135.61	-
PAT	Rs. Cr.	0.34	-
PAT Margin	(%)	0.25	-
Total Debt/Tangible Net Worth	Times	1.18	(9.72)
PBDIT/Interest	Times	2.73	-

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE B/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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