

## Arfin India Limited

July 04, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	19.84 (Reduced from 24.55)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	80.70	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>100.54</b> <b>(₹ One Hundred Crore and Fifty-Four Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

#### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Arfin India Limited (AIL) continue to derive strength from AIL's experienced promoters in manufacturing of ferrous and non-ferrous metals, established relationship with reputed clientele, moderately diversified product portfolio, moderate scale of operations which registered healthy growth in FY22 (FY refers to the period April 1 to March 31), adequate liquidity and AIL's presence as an organized player in the fragmented aluminium recycling industry.

The ratings, however, continue to remain constrained by AIL's moderate profitability with vulnerability to volatile raw material prices and foreign exchange rates, moderate capital structure as well as debt coverage indicators, high end-user industry concentration and its presence in a fragmented and competitive aluminium industry.

#### Rating sensitivities

##### Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations through healthy volume driven growth along with improvement in its PBILDT margin and return on capital employed (RoCE) to more than 7% and 15% respectively on a sustained basis
- Improvement in total debt/ PBILDT to around 4x, on sustained basis
- Improvement in overall gearing to less than unity, on sustained basis
- Contraction of gross operating cycle to less than 90 days on sustained basis

##### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any significant deterioration in profitability and debt coverage indicators on sustained basis
- Deterioration in total debt/ PBILDT to more than 7x on sustained basis
- Elongation of gross operating cycle to more than 180 days on sustained basis adversely impacting liquidity
- Deterioration in overall gearing to around 2x, on sustained basis

#### Detailed description of the key rating drivers

##### Key rating strengths

**Experienced promoters in the metal industry:** AIL's promoter, Mr. Mahendra R. Shah (Chairman & Executive Director), has more than two decades of experience in the manufacturing of ferrous and nonferrous metals. He presently looks after the entire operations of the company and is assisted by his son Mr. Jatin M. Shah (Managing Director) along with qualified and experienced second tier management personnel.

**Moderately diversified product portfolio to cater to requirements of multiple sectors:** AIL has presence in multiple product-segments of aluminium industry and has over the years gradually diversified its product portfolio. The top three products of the company i.e. aluminium alloy ingots, aluminium wire rod and aluminum deox contributed 25%, 18% and 15% respectively to AIL's gross sales in FY22 (29%, 19% & 20% in FY21). Sales across all product categories witnessed growth in FY22 compared to previous year on the back of pickup in demand.

With a moderately diversified product portfolio, AIL caters to the demand of some of the leading players in the steel, automobile, power, and foundry industries. However, customer concentration continued to remain high with top five clients constituting around 58% of its total operating income (TOI) in FY22 (66% in FY21). The company majorly operates in domestic market with pan-India presence, and it also exports its products to Japan, Middle-East, and African countries (exports formed ~20% of company's gross sales in FY22).

**Healthy growth in scale of operations in FY22:** AIL is an organized player in the fragmented aluminium industry and has a moderate scale of operations. Its revenue however remains vulnerable to volatility in demand from key end-user industries, along with volatile aluminium prices which are linked to international indices.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

During FY22, AIL's TOI registered healthy y-o-y growth of 73% and increased from Rs.304.33 crore in FY21 to Rs.527.50 crore in FY22 on the back of 28% y-o-y growth in sales volume on account of revival in demand from key end user industries post pandemic, as well as increase in sales realization across all its product categories.

### Key rating weaknesses

**Moderate profitability which is susceptible to raw material price volatility and foreign exchange rate fluctuations:** During FY22, AIL's operating profit (PBILDT) margin moderated by 88 bps y-o-y to 4.81% (P.Y.:5.68%) due to higher raw material cost incurred during the period which was offset to some extent by lower overhead costs with growth in scale of operations as well as due to change in product mix with higher sales of aluminium ingot which has relatively lower margin. With growth in scale of operations, PAT margin improved to 1.74% (P.Y.:1.32%) in FY22 from 1.32% in FY21.

The main raw material for AIL is aluminium scrap which it imports to some extent (from Japan as well as European countries) while balance is sourced domestically. Imports formed around 50%-65% of AIL's total raw material consumption, whereas its sales are majorly in the domestic market with exports forming ~10% to 20% of its gross sales. While this provides natural hedge to some extent, it exposes AIL's profitability to foreign exchange rate fluctuation. Also, the raw material prices are linked to international commodity indices which exposes it to inherent volatility associated with aluminium prices while its sales prices are dictated largely by the demand-supply dynamics in the domestic market for its various products. This exposes the company to adverse movement in input prices which it may not be able to pass on to its customers.

**Moderate capital structure and debt coverage indicators:** AIL's capital structure remained moderate, as indicated by an overall gearing of 1.45x as on March 31, 2022 (1.61x as on March 31, 2021). Marginal improvement in gearing was on account of healthy accretion of profit to reserves while total o/s debt remained largely stable.

AIL's debt coverage indicators also remained moderate in FY22 with PBILDT interest coverage of 2.05x (P.Y.:1.57x), total debt/GCA of 8.51 (P.Y.:14.78) and total debt/PBILDT of 4.40x (P.Y.:6.29x). Improvement in the same was on the back of higher profit as well as cash accruals.

**Fragmented industry characterized by intense competition, along with high end-user industry concentration:** The spectrum of the aluminium industry in which the company operates is highly fragmented and competitive marked by presence of numerous small and unorganized players in India. Hence the players in the industry have limited pricing power and are exposed to competitive pressure on their profitability. This apart, its products, largely being of intermediary usage, are subject to the risks associated with the industry cyclical and price volatility. Further, despite a gradual diversification in product portfolio and end user industry, AIL's dependence on steel sector remained high, which makes it vulnerable to any major downturns in the industry. The steel sector contributed ~51% of AIL's TOI during FY22, followed by automobile at ~25% and balance from power and other industries.

### Liquidity: Adequate

AIL's liquidity stood adequate marked by moderate utilization of its working capital limits, positive cash flow from operations and improvement in operating cycle in FY22.

AIL's operating cycle improved from 134 days in FY21 to 76 days in FY22 mainly on account of reduction in inventory holding period from 134 days in FY21 to 78 days in FY22 on the back of rationalization of inventory level by the management and marginally improvement in collection period from 42 days in FY21 to 35 days in FY22. As on March 31, 2022, AIL did not have any outstanding debtors for more than 120 days.

Average utilization of working capital limits remained moderate at ~84% for 12 months ended April 2022 with reduction in sanctioned working capital limits over the past two years; supported by positive cash flow from operations of Rs.14.32 crore in FY22 and availment of covid emergency credit line. AIL availed covid emergency credit line of Rs.24.79 crore in FY21, as part of RBI's covid relief measure, for its working capital requirement. Post that, AIL availed additional covid emergency line of Rs.9.55 crore in FY22.

AIL has scheduled principal repayments in the range of Rs.5.50-7.50 crore over the next three years which are expected to be met comfortably from its envisaged cash accrual generation.

**Analytical approach:** Standalone

### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Non-Ferrous Metal](#)

### About the company

Incorporated in 1992, Gujarat based AIL is promoted by Mr. Mahendra R. Shah. The company is engaged in manufacturing of aluminium products such as aluminium wire rod, aluminium deox, cored wire, aluminium alloy ingots, conductors & cables from aluminium scrap. AIL's manufacturing facility is located at Chhatral near Gandhinagar in Gujarat with installed capacity of 71,000 metric tonnes per annum (MTPA) as on March 31, 2022.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)
Total operating income	304.33	527.50
PBILDT	17.30	25.35
PAT	4.02	9.19
Overall gearing (times)	1.61	1.45
Interest coverage (times)	1.57	2.05

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable**Any other information:** Not Applicable**Rating history for the last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure-4**Annexure-1: Details of instruments/facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	75.70	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	5.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	July 2021	0.41	CARE BBB-; Stable
Fund-based - LT-Working capital Term Loan	-	-	March 2028	19.43	CARE BBB-; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-LT/ST	LT/ST*	75.70	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (29-Jun-21)	1)CARE BBB-; Negative / CARE A3 (02-Sep-20)	1)CARE BBB; Stable / CARE A3+ (02-Jul-19) 2)CARE BBB; Stable (05-Jun-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	5.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (29-Jun-21)	1)CARE BBB-; Negative / CARE A3 (02-Sep-20)	1)CARE BBB; Stable / CARE A3+ (02-Jul-19) 2)CARE A3+ (05-Jun-19)
3	Fund-based - LT-Term Loan	LT	0.41	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Jun-21)	1)CARE BBB-; Negative (02-Sep-20)	1)CARE BBB; Stable (02-Jul-19) 2)CARE BBB; Stable (05-Jun-19)
4	Fund-based - LT-Working capital Term Loan	LT	19.43	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Jun-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Fund-based-LT/ST	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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