

Arfin India Limited

August 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	26.73 (Reduced from 28.98)	CARE BBB-; Stable	Reaffirmed
Long-term/Short-term bank facilities	92.70	CARE BBB-; Stable/CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 the manufacturing of non-ferrous metals, the established relationship with a reputed clientele as well as the moderately-diversified product portfolio, the moderate scale of operations, and its adequate liquidity along with its presence as an organised player in the fragmented aluminium recycling industry.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations through healthy volume-driven growth along with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and return on capital employed (RoCE) to more than 7% and 15%, respectively, on a sustained basis.
- Improvement in the total debt (TD)/PBILDT to around 3x on a sustained basis.
- Improvement in the overall gearing to less than unity on a sustained basis.

Negative factors

- Any significant deterioration in the profitability and debt coverage indicators on a sustained basis.
- Deterioration in the TD/PBILDT to more than 6x on a sustained basis.
- Elongation of the gross operating cycle to more than 180 days on a sustained basis, adversely impacting the liquidity.
- Deterioration in the overall gearing to around 1.75x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') view that AIL is likely to maintain steady growth in its operating performance with benefits derived from the extensive experience of its promoters along with established relationship with its reputed clientele. The 'Stable' outlook also reflects the sustenance of a moderate capital structure and an adequate liquidity profile.

Detailed description of the key rating drivers

Key strengths

Experienced promoters in the metal industry

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

Moderately-diversified product portfolio to cater to the requirements of multiple sectors

AIL has a presence in multiple product segments of the aluminium industry and has, over the years, gradually diversified its product portfolio. The top three products of the company, ie, aluminium alloy ingots, aluminium wire rod, and aluminium deox contributed 24%, 23%, and 21%, respectively, to AIL's gross sales in FY23 (25%, 18%, and 15% in FY22).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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 the top five clients constituting around 54% of its total operating income (TOI) in FY23 (58% in FY22). The company mainly operates in the domestic market with a pan-India presence and it also exports its products to Japan, the Middle East and African countries (exports formed around 25% of the company's gross sales in FY23).

Moderate scale of operations

AIL is an organised player in the fragmented aluminium industry and has a moderate scale of operations. Its revenue, however, remains vulnerable to the volatility in demand from key end-user industries along with the volatile aluminium prices, which are linked to international indices. During FY23, AIL's TOI stood moderate at ₹546.24 crore, increasing marginally from ₹527.50 crore in FY22, backed by volume-driven growth.

Key weaknesses

Moderate profitability, susceptible to raw material price volatility and foreign exchange rate fluctuations

With limited value addition, AIL's operating profit (PBILDT) margin continued to remain moderate at 5.23% (PY: 4.81%). The profit-after-tax (PAT) margin also stood limited, at 1.89% (PY: 1.74%). Consequently, the company registered moderate gross cash accruals (GCA) of ₹14.53 crore during FY23.

The main raw material for AIL is aluminium scrap, which it imports to some extent (from Japan as well as European countries), while the balance is sourced domestically. Imports formed around 50% of AIL's total raw material consumption, whereas its sales are mainly in the domestic market, with exports forming around 25% of its gross sales during FY23. While this provides natural hedge to some extent, it exposes AIL's profitability to foreign exchange rate fluctuations.

Also, the raw material prices are linked to international commodity indices, which exposes it to the 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. While the back-to-back sourcing of raw materials along with quarterly price revisions for the supply to the steel industry mitigates the price volatility to some extent, overall, the company remains exposed to any 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 1.36x as on March 31, 2023 (1.45x as on March 31, 2022). The marginal improvement in gearing was on account of the accretion of profits to reserves. The company has availed a term loan of ₹3.60 crore for undertaking a capex for installing a solar power plant at Banaskantha, Gujarat, with a capacity of 1.2 MW, which has become functional from January 2023.

AIL's debt coverage indicators also remained moderate in FY23 with a PBILDT interest coverage of 1.99x (PY: 2.05x), TD/GCA of 8.22 years (PY: 8.51 years) and TD/PBILDT of 4.18x (PY: 4.40x).

Fragmented industry characterised 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 the presence of numerous small and unorganised 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's cyclical nature and price volatility. Furthermore, despite a gradual diversification in product portfolio and end-user industry, AIL's dependence on the steel sector remained high, which makes it vulnerable to any major downturns in the industry. The steel sector contributed to around 63% of AIL's TOI during FY23, followed by automobile at around 24%, and the balance from power and other industries.

Liquidity: Adequate

AIL's liquidity stood adequate, marked by adequacy in cash accruals vis-à-vis repayments along with a moderate operating cycle.

The average utilisation of the working capital limits remained high at around 86% for the last 12 months ended June 30, 2023, with a sizeable inventory holding requirement (of around two to three months) along with a deployment of funds for supplier advances; however, the company receives a moderate credit period of around 40 which, along with a controlled collection period, results in a moderate operating cycle.

AIL registered a positive cash flow from operations of around ₹29.40 crore during FY23, which resulted in accumulation of free cash balance of ₹7.51 crore as on March 31, 2023. The same is expected to aid funding for its ongoing capex to set up the manufacturing facility of a new product 'Inoculant' at a total cost of ₹10 crore with an installed capacity of 1,000 metric ton (MT). Inoculant is used in foundry alloy products, S.G. iron, ductile iron, cast iron, etc.

As on March 31, 2023, AIL did not have any outstanding debtors for more than 120 days.

AIL has scheduled principal repayments in the range of ₹4-8.50 crore over the next three years ended FY26, which are expected to be met from its envisaged cash accruals generation.

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Non - Ferrous Metals	Aluminium

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, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	304.33	527.50	546.24
PBILDT	17.30	25.35	28.57
PAT	4.02	9.19	10.32
Overall gearing (times)	1.61	1.45	1.36
Interest coverage (times)	1.57	2.05	1.99

A: Audited UA: Unaudited. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital Term Loan		-	-	November, 2027	26.73	CARE BBB-; Stable
Fund-based-LT/ST		-	-	-	82.70	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	10.00	CARE BBB-; Stable / CARE A3

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 2023-2024	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
1	Fund-based-LT/ST	LT/ST*	82.70	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (12-Aug-22) 2)CARE BBB-; Stable / CARE A3 (04-Jul-22)	1)CARE BBB-; Stable / CARE A3 (29-Jun-21)	1)CARE BBB-; Negative / CARE A3 (02-Sep-20)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (12-Aug-22) 2)CARE BBB-; Stable / CARE A3 (04-Jul-22)	1)CARE BBB-; Stable / CARE A3 (29-Jun-21)	1)CARE BBB-; Negative / CARE A3 (02-Sep-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (12-Aug-22) 2)CARE BBB-; Stable (04-Jul-22)	1)CARE BBB-; Stable (29-Jun-21)	1)CARE BBB-; Negative (02-Sep-20)
4	Fund-based - LT-Working capital Term Loan	LT	26.73	CARE BBB-; Stable	-	1)CARE BBB-; Stable (12-Aug-22) 2)CARE BBB-; Stable (04-Jul-22)	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 the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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 for any clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Deepak Purshottambhai Prajapati Senior Director CARE Ratings Limited Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in</p>	<p>Analytical Contacts</p> <p>Kalpesh Ramanbhai Patel Director CARE Ratings Limited Phone: +91-79-4026 5611 E-mail: kalpesh.patel@careedge.in</p> <p>Nikita Akhilesh Goyal Assistant Director CARE Ratings Limited Phone: +91-79-4026 5616 E-mail: nikita.goyal@careedge.in</p> <p>Arpita Alax Christian Lead Analyst CARE Ratings Limited E-mail: Arpita.Christian@careedge.in</p>
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About us:

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