

Arkkeys National Engineering and Foundry Co

January 16, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	37.48 (Reduced from 37.55)	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	40.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Arkkeys National Engineering and Foundry Firm (ANEF) continue to derive strength from the established track record of operations, long-standing customer relationship with market leaders, comfortable capital structure and improved liquidity position.

However, ratings are constrained by the moderate scale of operations with concentration towards automobile industry, profitability exposed to raw material price volatility, constitution of the entity being a Hindu Undivided Family (HUF) and presence of high competition in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations with total operating income (TOI) over ₹250 crore.
- Improvement in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin in the range of 8-10%.

Negative factors

- Increase in leverage considering debt funded capital expansion.
- Sharp decline in scale of operations or profitability.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes the entity is likely to sustain a comfortable financial risk profile and favourable demand scenario enabling healthy operating performance over the medium term.

Detailed description of key rating drivers:

Key strengths

Established track record of operations

ANEF has been operating as HUF since its inception. It is headed by Ashok Bulchandani as the Kartha and managing director, who took over the business from his father, Ramchand Bulchandani in 1974. He is ably supported by his son Punith Bulchandani, who manages the entity's day-to-day operations. Being in operation for over 50 years, ANEF is one of the leading bright bar manufacturers in south India. Since FY16, ANEF has expanded its portfolio to include the supply of transmission shafts to Hyundai Wia, a Tier-I vendor of a leading auto original equipment manufacturer (OEM).

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

Sustained scale of operation

ANEF has consistently improved its TOI over the years, achieving a compound annual growth rate (CAGR) of 8% in the last five years. Despite the decline in realisation due to the falling steel prices, the firm has sustained the TOI at ₹205 crore in FY24 (PY: ₹198 crore), reflecting a moderate year-over-year (y-o-y) growth of 4% aided by the improved volume. ANEF has improved in bright bars volume over the years with an improved order flow from Bosch and addition of new customers such as Daewon. Bright bars volume increased by 3% and 12%, respectively, in FY23 and FY24, whereas shaft volume declined by ~2% in FY24, owing to reduced orders from major customers in the segment due to weak export demand. While the bright bars volume continued to grow in the current year, volume of shaft, which carries higher margin is yet to improve. The TOI for 9MFY25 stabilised at ₹156 crore, aligned with the TOI of ₹155.85 crore in 9MFY24.

Long- standing relationship with reputed client base

ANEF enjoys well-established relationship with its reputed customers. The entity supplies bright bars mainly to Tier I vendors of auto OEMs and major auto components manufacturers. Since FY16, the entity also started supplying transmission shafts to Hyundai Wia, which is a Tier I vendor of Hyundai. In FY23, ANEF added Daewoo India to its client profile, which contributed 13% sales in FY24 and 20% sales in 8MFY25. The top five clients contribute ~63% sales in 8MFY25 against 57% sales in FY24. Although there is an increasing concentration of revenue, the risk is largely mitigated with enduring relationships with its reputable customer base.

Comfortable capital structure and debt coverage indicators

The financial risk profile continued to be comfortable considering relatively low debt levels. The total net worth (TNW) improved from ₹60.25 crore in March 2022 to ₹108.16 crore in March 2023 with the infusion of sales proceeds from the disposal of non-operational assets. While the TNW marginally moderated to ₹101.86 crore as on March 2024 considering payment of capital gain tax arose from the prior year's asset disposal and capital withdrawal, overall gearing remains comfortable at 0.24x as on March 2024 (PY 0.21x). ANEF continues to be net debt negative with cash and deposit balance of ₹34.80 crore as on March 31, 2024 (PY 29.52 crore). Debt coverage indicators also improved, with total debt to gross cash accrual (TD/GCA) at 2.79x (PY 3.60x) and interest coverage at 4.98x (PY 4.14x).

Key weaknesses**Moderate profitability margin and exposure to raw material price volatility**

The firm procures steel in coils and bars, processing them through shot blasting, drawing, grinding, and peeling. Fully processed and machined products, which made up 55% revenue of FY24, typically have higher margins, while partially processed non-machined products have relatively lower margins. Shafts carry higher margins compared to bright bars and share of shaft in the overall sales mix has been declining over the last two years.

ANEF's main raw materials are black steel bars and steel black wire rods, whose prices are generally volatile. The steel industry is cyclical, with prices driven by demand, supply conditions, and global market linkages, leading to the risk of price fluctuations in raw materials and finished goods. ANEF has a built-in price escalation clause in contracts with some customers, generally allowing them to pass on price increases, despite a time lag of one to two months. PBILDT% marginally deteriorated in FY24 due to the non-capitalisation of certain capex spending ~₹1.20 crore and upward revision of promoter salary.

Capital withdrawal risk associated with HUF

The entity continues to remain an HUF, restricting its overall financial flexibility. The proprietor is free to withdraw the capital when required. Promoters have withdrawn ₹3 crore in FY24 from the sale proceeds of non-operational asset. There have been no other withdrawals in the last five years.

Liquidity: Adequate

ANEF has GCA of ₹8.86 crore in FY24 against debt repayment obligations of ₹0.27 crore in FY25. ANEF had an unencumbered cash bank balance of ₹27.42 crore as on March 2024. The operating cycle remains stable at 67 days in FY24 (PY 68 days) and average utilisation of fund based working capital limit is minimal ~7% for 12 months ending in November 2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components and equipments

Established in 1964, ANEF is one of the oldest producers of bright steel bars in south India. It is the first bright bar manufacturer to be accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) for its lab facilities. ANEF has been engaged in manufacturing and sale of bright steel bars of different grades such as alloy steel, mild steel, carbon steel and free alloy steel. From March 2015, the entity started exclusive manufacture and supply of transmission shafts to major automobile manufacturing company Tier-I supplier. The entity has capacity to manufacture 30,000 metric tonne per annum (MTPA) bright bars and 1,080,000 transmission shafts per annum as on November 2024 at their manufacturing unit spread over 5.5 acres at the SIPCOT Industrial Park in Irungattukottai near Chennai. ANEF has been operating as HUF over the years. Ashok Bulchandani, managing director, took charge of the business in 1974 as the proprietor (Karthi).

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	9MFY25 (UA)
Total operating income	198.79	205.83	156.00
PBILDT	8.07	8.18	NA
PAT	2.79	5.84	NA
Overall gearing (times)	0.21	0.24	NA
Interest coverage (times)	4.14	4.98	NA

A: Audited; UA: Unaudited; NA; Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	37.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	December 2025	0.48	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A3+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	0.48	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Feb-24)	1)CARE BBB; Stable (13-Mar-23)	1)CARE BBB; Stable (14-Mar-22)
2	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Feb-24)	1)CARE BBB; Stable (13-Mar-23)	1)CARE BBB; Stable (14-Mar-22)
3	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A3+	-	1)CARE A3+ (01-Feb-24)	1)CARE A3+ (13-Mar-23)	1)CARE A3+ (14-Mar-22)

LT: Long term; ST: Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender detailsTo view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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