

Arfin India Limited

June 29, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	24.14	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long term Bank Facilities	0.41 (Reduced from 1.21)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long term/Short term Bank Facilities	80.70 (Reduced from 104.90)	CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed; Outlook revised from Negative
Total Facilities	105.25 (Rupees One Hundred Five Crore and Twenty Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook from 'Negative' to 'Stable' is mainly on account of pickup in demand from AIL's key end-user industries, resulting in gradual revival in sales volume over the last few quarters along with maintenance of the operating profitability despite increase in raw material prices.

The ratings continue to derive strength from AIL's experienced promoters in manufacturing of ferrous and non-ferrous metals, established relationship with a reputed clientele as well as moderately diversified product portfolio and moderate scale of operations with its 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 and its stretched liquidity mainly due to high inventory holding. The ratings also remain constrained by AIL's high end-user industry concentration and its presence in a fragmented and competitive aluminium industry.

Rating Sensitivities

Positive Factors

- 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

- 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 non-ferrous metal products. He looks after the entire operations of the company and is assisted by his son, Mr. Jatin M. Shah (Managing Director), along with a qualified and experienced second tier management.

Moderately diversified product portfolio along with established relationship with reputed clientele: AIL has presence in various product-segments of the 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 together contributed 68%

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

of AIL's sales in FY21 (61% in FY20). AIL increased its capacity for manufacturing of aluminium alloy ingots in FY21, backed by its increased demand during the period.

With a moderately diversified product portfolio, AIL caters to the demand from 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 66% of its total operating income (TOI) in FY21. The company majorly operates in the domestic market with a pan-India presence, and it also exports its products to Japan, Middle-East and African countries with exports forming ~17% of gross sales in FY21 (~18% in FY20).

Moderate scale of operations with revival in demand witnessed in end-user industries: 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 end-user industries, along with volatile aluminium prices which are linked to international indices.

During FY21, AIL's TOI declined by ~15% y-o-y and continued to remain moderate at Rs.304.33 crore. The decline was mainly due to 16% y-o-y decline in sales volume. This decline was mainly witnessed in Q1FY21 owing to the outbreak of the covid-19 pandemic and resultant lockdowns announced to curb the spread of the same. Demand however started picking up from Q2FY21 onwards with revival in the key end user industries, including steel and automobile. Both domestic and export demand improved in these industries, backed by higher infrastructure spending and stimulus packages, which resulted in improvement in demand of aluminium concurrently.

Sales realization increased during FY21 due to increase in aluminium prices from June onwards, which was largely passed on to the customers.

The presently installed manufacturing capacities of the company are utilized to a moderate level of around 30-40%. Scale up of operations and optimal utilization of these capacities shall remain crucial for its prospects.

Key Rating Weaknesses

Moderate profitability which is susceptible to raw material price volatility and foreign exchange rate fluctuations: AIL's operating profit (PBILDT) margin continued to remain moderate at 5.68% in FY21 as against adjusted PBILDT margin of 5.80% in FY20 (calculated after excluding a

one-time write-off of receivables of Rs.25.24 crore from the operating profitability, during FY20). This also limits the generation of cash accruals of the company, which stood at ~Rs.7 crore during FY21.

Further, the main raw material for AIL is aluminium scrap which it imports mainly from European countries, whereas its sales is majorly in the domestic market. This exposes AIL's profitability to exchange rate fluctuations. Also, the raw material prices are linked to international commodity indices, which exposes it to price volatility, while its sales prices are dictated largely by the demand-supply in the domestic market for various products. However, over the past three years, AIL's operating profitability has largely remained stable, indicating company's ability to pass on the volatility in the raw material prices to a large extent.

Moderate capital structure and debt coverage indicators: AIL's capital structure remained moderate, as indicated by an overall gearing of 1.61x as on March 31, 2021 (1.83x as on March 31, 2020). Marginal improvement in gearing was owing to lower working capital borrowings at year-end, facilitated by adequate cash flow from operations.

Debt coverage indicators improved marginally during FY21 with lower interest costs, albeit remained moderate as indicated by a PBILDT interest coverage of 1.57x, total debt/ GCA of 14.78 and total debt/ PBILDT of 6.29x.

Liquidity: Stretched

AIL's liquidity remained stretched, marked by an elongated operating cycle, high utilization of its working capital limits and availment of interest moratorium as well as emergency credit line as a Covid-19 relief measure from its lenders in line with RBI's guidelines.

AIL continued to have an elongated operating cycle of 134 days in FY21 (P.Y.: 133 days) on the back of a continued high inventory holding period, which increased from 108 days to 134 days during the year and was partially offset by higher creditors. Collection period remained stable at 42 days in FY21 (43 days in FY20) with payments largely being received within the credit period extended by the company.

Company inventoried select raw materials at end of FY21, owing to a rising raw material price scenario. This resulted in a high utilization of the working capital limits, averaging at 92% for 12 months ended April 2021; given company's limited cash accruals and a reduction in its sanctioned working capital limits over last few quarters.

Thus, rationalization of inventory levels would continue to remain crucial for AIL's prospects, given its restricted liquidity profile and the scheduled repayments of the covid-emergency line of credit which the company availed to meet its working capital requirements during the year.

AIL availed an emergency credit line of Rs.24.79 crore in FY21 as part of the RBI's covid relief measure, repayments of which are in the range of Rs.4.60-6.30 crore over the next three years. AIL had also availed interest moratorium on its working capital facilities from March to August 2020.

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 cyclicality 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 ~59% of AIL's TOI during FY21, followed by automobile and power sectors which contributed 27% and 6% respectively.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis - Non Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Non Ferrous Metals](#)

[Financial ratios - Non- Financial Sector](#)

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, 2021.

Brief Financials (Rs. crore)	FY20 (A)	*FY21 (A)
Total operating income	360.07	304.33
PBILDT	-4.23	17.30
Adjusted PBILDT	^21.01	17.30
PAT	-21.57	4.02
Overall gearing (times)	1.83	1.61
Interest coverage (times)	-ve	1.57

A: Audited; *abridged financials published on Bombay Stock Exchange; ^excluding write-off of receivables in FY20; -ve: Negative Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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 Guarantees	-	-	-	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 2026	24.14	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based-LT/ST	LT/ST	75.70	CARE BBB-; Stable / CARE A3	-	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)	1)CARE BBB+; Negative (22-Feb-19) 2)CARE BBB+; Stable (22-Jun-18)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (02-Sep-20)	1)CARE BBB; Stable / CARE A3+ (02-Jul-19) 2)CARE A3+ (05-Jun-19)	1)CARE A2 (22-Feb-19) 2)CARE A2 (22-Jun-18)
3.	Fund-based - LT-Term Loan	LT	0.41	CARE BBB-; Stable	-	1)CARE BBB-; Negative (02-Sep-20)	1)CARE BBB; Stable (02-Jul-19) 2)CARE BBB; Stable (05-Jun-19)	1)CARE BBB+; Negative (22-Feb-19) 2)CARE BBB+; Stable (22-Jun-18)
4.	Fund-based - LT-Working capital Term Loan	LT	24.14	CARE BBB-; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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 Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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