Arfin India Limited

February 22, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	89.25	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable to Negative**
Short-term Bank Facilities	2.50	**CARE A2 (A Two)**	**Reaffirmed**
Total facilities	**91.75 (Rupees Ninety One Crore and Seventy Five Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Arfin India Limited (AIL) continue to derive strength from experience of its promoters in the business of manufacturing ferrous and non-ferrous metals, established relationship with reputed clients, being an organized player in the fragmented aluminum recycling industry, gradual diversification in its product portfolio to cater multiple requirements across varied sectors and its moderate capitals structure.

The ratings are, however, constrained by its highly working capital intensive nature of operations, vulnerability of profitability to volatility in raw material prices, foreign exchange rates and end-user industry, and risk of customer concentration and its presence in highly fragmented and intensely competitive aluminium recycling industry which restricts its profitability margins. Moreover, the ratings also takes into account significant decline in profitability and cash accruals during 9MFY19 (UA) which remained lower than envisaged, apart from moderation in liquidity profile due to delay in sanction and disbursement of enhanced working capital limits

Ability of AIL to grow its scale of operations with diversification in customer base and end user industry, sustained improvement in profitability and efficient management of its working capital requirement with improvement in liquidity indicators shall be the key rating sensitivities.

Outlook: Negative

The negative outlook for the long term bank facilities of AIL reflects CARE's expectation of weakening of its debt coverage indicators amidst subdued profitability in medium term and increase in working capital requirements which are expected to be funded through additional debt. Moreover, it also takes cognizance of lower than that previously envisaged total operating income and profitability. The outlook may be revised to stable in case the scale of operations and profitability improve significantly or the liquidity improves meaningfully.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the manufacturing of ferrous and non-ferrous metals: AIL's promoter Mr. Mahendra R. Shah (Chairman), has more than two decades of experience in the manufacturing of aluminum products, ferrous and non-ferrous metal from scrap. He currently looks after the entire operations of the company. He is also assisted by his son Mr. Jatin M. Shah (Managing Director) and other family members along with qualified and experienced second tier management personnel. The promoters are also associated with other sister concerns namely Krish Ferro Industries Private Limited and Mahendra Corporation.

Gradual diversification in product portfolio to cater the requirements of multiple sectors: AIL has presence in multiple product-segment of aluminum and is progressively formulating opportunities in various sectors. The main two products of the company i.e. Aluminum wire rod and Aluminum Dexo together contributed nearly 66% of total sales in FY18 and 50% during 9MFY19 as against 69% in FY17. Over the last two years, the company has gradually diversified its product portfolio and added products like Aluminum Alloy Ingots, Cored Wire and Conductors. With varied product portfolio, the company is catering to the demand of steel, automobile, power and foundry industry. The company majorly operates in domestic market with pan-India presence; however it also exports to other market especially Japan, Middle-East and African countries.

Moderate capital structure: With increase in scale of operation and to meet the enhanced level of working capital requirement and capex requirement, the borrowings have increased during FY18. During FY18, AIL incurred a capex of Rs.10 crore for enhancing the capacity in Master & Ferro Alloys and Aluminium wire rod segment. The same was funded

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

by way of term loan of Rs.8 crore and the balance from internal accruals. However, despite increase in borrowings, the debt equity and overall gearing ratio remained moderate as on March 31, 2018 and December 31, 2018. The capital structure of the company is adequately supported by healthy equity base of Rs.82.43 crore as on March 31, 2018 and Rs.90.20 crore as on December 31, 2018. Moreover, despite fall in profitability and cash accruals during 9MFY19, the debt coverage indicators like PBILDT interest coverage and total debt to GCA remained modest around 2.79 times and 7.29 years respectively.

Key Rating Weaknesses

Significant decline in profitability and cash accruals during 9MFY19 (UA): The financial performance of the company marked by PBILDT and PAT decline significantly during 9MFY19 on Y-o-Y basis and remained lower than envisaged. As informed by the company management, they had planned to grow scale of operation significantly and accordingly planned import of raw material (i.e. aluminum scrap) in anticipation of enhanced working capital limits. However, with delay in sanction and disbursement of enhanced working capital limits, the company could not lift the imported material in time bound manner which led to demurrage cost and in turn impacted the profitability. The company paid demurrage cost of around Rs.5-6 crore during 9MFY19. Further, the company also faced delay in debtor recovery which led to higher average utilization of working capital limits and in turn higher interest burden. On an aggregate level, cost of demurrage and increase in interest cost impacted the net profits by 47% and cash profits by 39% during 9MFY19 over 9MFY18.

Moderate liquidity due to high working capital intensity: Operations of AIL are highly working capital intensive in nature. AIL's operating cycle stood high at 86 days in FY18 and 111 days during 9MFY19 primarily on account of high inventory period of more than two months apart from elongation in debtor collection. Moreover, the company procures more than 45% of its raw materials through imports on an advance payment basis resulting in relatively short creditor's period which too results in high working capital requirement. The average fund based working capital limit utilization also remained high at around 95% during past 12 months ended January 2019. The liquidity of the company also constrained due to decline in cash accruals during 9MFY19. However, in absence of major term debt repayment obligation, the liquidity is expected to remain stable in medium term. Moreover, the company expects the sanction and disbursement of enhanced working capital limits shortly which too supports the liquidity.

High customer and end-user industry concentration: Despite gradual diversification in product portfolio and end user industry, AIL's dependency on steel sector is still remain high. The steel sector contributed nearly 72% of total operating income during FY18, followed by automobile and power which contributed 16% and 2% respectively. Further, AIL also faces high customer concentration with top 10 customers contributing around 77% to the total operating income during FY18; albeit some of its clientele are reputed players in their respective industries.

Exposure to price volatility in raw materials and foreign exchange fluctuation risk: The main raw material of the company is aluminum scrap which is a major contributor to the total costs (around 85-87%) during past three years ended FY18. The company is importing scrap mainly from European countries whereas its sales are majority in domestic market which exposes it to exchange rate fluctuations. Also, the raw material prices are linked to international indices like London Metal Exchange (LME); hence the company is exposed to raw material price volatility risk due to volatility associated in the prices of aluminium.

Highly fragmented nature of industry characterized by intense competition: The spectrum of the aluminum 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 do not have much pricing power and are exposed to competition induced pressures on profitability. This apart, its product being intermediary aluminum product, it is subject to the risks associated with the industry cyclicality and price volatility. However, AIL is an organized player in this industry.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1992, AIL; based out of Ahmedabad, Gujarat is promoted by Mr. Mahendra R. Shah. It is engaged in the business of manufacturing largely aluminum products from aluminum scrap. The manufacturing facilities of AIL is located

at Chhatral in Gandhinagar district (Gujarat) having installed capacity of 55,700 MTPA as on March 31, 2018 to manufacture aluminum Doex and Ingots, Alloys and Ferro Alloys products, Cored Wire, Conductors and Cables.
AIL has pan-India presence with its corporate office in Ahmedabad and branch offices at Hospet (Karnataka), Salem (Tamilnadu), Bhiwandi (Maharashtra), Faridabad (Haryana) and Rudrapur (Uttrakhand). The products manufactured by AIL find its application across steel, auto, power and other sectors. During FY18, AIL has amalgamated its sister concern Mahendra Aluminum Company Limited (MALCO), which was engaged in the similar line of business. The net purchase consideration was Rs.6.86 crore which was settled in share swap.

(Rs. Crore)

Brief Financials	FY17 (A)	FY18 (A)
Total Operating Income	344.37	466.97
PBILDT	27.88	45.81
PAT	13.01	21.70
Overall gearing (times)	1.12	1.16
PBILDT Interest coverage (times)	4.64	4.93

A: Audited

During 9MFY19 (UA), AIL reported a total operating income of Rs.322.00 crore and PAT of Rs.7.77 crore as against total operating income of Rs.305.62 crore and PAT of Rs.14.87 crore during 9MFY18 (UA).

Status of non-cooperation with previous CRA: Brickwork Ratings vide its press release of December 2016 has informed that AIL has not provided required information for carrying out a review of ratings.

Any other information: Not Applicable

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

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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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-Term Loan	-	-	June 2023	7.75	CARE BBB+; Negative
Fund-based - LT-Cash Credit	-	-	-	81.50	CARE BBB+; Negative
Non-fund-based - ST-Letter of credit	-	-	-	2.50	CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	7.75	CARE BBB+; Negative	1)CARE BBB+; Stable (22-06-18)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	81.50	CARE BBB+; Negative	1)CARE BBB+; Stable (22-06-18)	1)CARE BBB; Positive (16-Oct-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A2	1)CARE A2 (22-06-18)	1)CARE A3+ (16-Oct-17)	-	-

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CIN - L67190MH1993PLC071691