Arfin India Limited

June 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	89.25 (enhanced from Rs.62.50 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Positive (Triple B; Outlook: Positive)**
Short-term Bank Facilities	2.50 (reduced from Rs.5.00 crore)	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
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 revision in ratings assigned to the bank facilities of Arfin India Limited (AIL) takes into account significant increase in scale of operation marked by growth in total operating income, profitability and cash accruals during FY18 (A) compared to FY17 (A).

The rating 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.

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.

Ability of AIL to continue expansion in its product portfolio thereby leading to further increase its scale of operations with diversification in customer base and end user industry and efficient management of its working capital requirement with sustained improvement in liquidity indicators shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Significant increase in scale of operation marked by growth in total operating income, profitability and cash accruals

The total operating income of AIL, which registered a CAGR of nearly 20% during past three years ended FY18, grew healthy by around 36% during FY18 over the previous year due to increased demand of its existing products along with introduction of new products. Apart from the growth in existing product i.e. Aluminium Deox, the growth in total operating income was also supported by growth in newly added products i.e. Aluminium Alloy Ingot and Conductor & Cables. Further, benefit of economies of scale and increased contribution of high value added products led to improvement in PBILDT margin increased by nearly 170 during FY18. The PAT margin also improved in line with improvement in PBILDT margin during the year. With growth in total operating income and improvement in profitability, the Gross cash accruals grew by almost 60% in FY18 over FY17.

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 aluminium 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 aluminium and is progressively formulating opportunities in various

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

sectors. The main two products of the company i.e. Aluminium wire rod and Aluminium Dexo together contributed nearly 66% of total sales in FY18 as against 69% in FY17. Over the last two years, the company has gradually diversified its product portfolio and added products like Aluminium 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 and comfortable debt coverage indicators

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 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. The capital structure ratio is largely supported by healthy net worth base backed by infusion of equity capital of Rs.18 crore during FY17 and accrual of profits over the years. Further, PBILDT interest coverage and Total debt/ Gross cash accruals improved marginally and remained comfortable at 4.93 times and 4.06 years in FY18 supported by healthy profitability and cash accruals.

Key Rating Weakness

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

Working capital intensive nature of operations

Operations of AIL are highly working capital intensive in nature. AIL's operating cycle stood high at 86 days in FY18 primarily on account of high inventory period of more than two months backed by growth in its product portfolio. The working capital requirement also increases due to relatively high debtor collection of around one and half month. 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. With continuous expansion in its scale of operation, AIL's cash flow from operation remained negative Rs.21.34 crore during FY17 and Rs.8.83 crore in FY18. The average fund based working capital limit utilisation of also remained high during past 12 months ended April 2018.

Exposure to price volatility in raw materials and foreign exchange fluctuation risk

The main raw material of the company is aluminium 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 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 do not have much pricing power and are exposed to competition induced pressures on profitability. This apart, its product being intermediary aluminium 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]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

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 aluminium products from aluminium 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 aluminium 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 Aluminium 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.

Brief Financials (Rs. crore)	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
Interest coverage (times)	4.64	4.93

A: Audited

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.*

Analyst Contact
Name: Krunal Modi
Tel: 079 – 40265614
Mobile: +91-8511190084
Email: krunal.modi@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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+; Stable
Fund-based - LT-Cash Credit	-	-	-	81.50	CARE BBB+; Stable
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-Cash Credit	LT	81.50	CARE BBB+; Stable	-	1)CARE BBB; Positive (16-Oct-17)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A2	-	1)CARE A3+ (16-Oct-17)	-	-
3.	Fund-based - LT-Term Loan	LT	7.75	CARE BBB+; Stable	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691