Arfin India Limited

October 16, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	62.50	**CARE BBB; Positive [Triple B; Outlook: Positive]**	**Assigned**
Short Term Bank Facilities	5.00	**CARE A3+ [A Three Plus]**	**Assigned**
Total Facilities	**67.50 (Rupees Sixty seven crore and fifty lack Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Arfin India Limited (AIL) derives strength from experience of its promoters in the business of manufacturing ferrous and non-ferrous metals, established relationship with reputed clients, being an organised player in the fragmented aluminium recycling industry, robust growth in its product portfolio to cater multiple requirements across varied sectors. The ratings also draw comfort from steady growth in its total operating income (TOI) along with improved profitability margins, comfortable capital structure and debt coverage indicators and the successful commissioning of its new project for manufacturing Master and Ferro Alloys products.

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, end-user industry and customer concentration and highly fragmented nature of industry characterized by intense competition.

Ability of AIL to expand its product portfolio, further increase its scale of operations along with improvement in its profitability & capital structure, efficient management of its working capital requirement and greater diversification of its clientele shall be the key rating sensitivities.

Outlook: Positive

The positive outlook reflects CARE's expectation of further improvement in AIL's financial risk profile with gradual diversification in its end user industries & customers along-with improvement in its working capital management. The outlook may be revised to 'Stable' if the company is unable to ramp up sales in automotive & power transmission segments and consequently fail to improve its financial risk profile.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in 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.

Increase in TOI along with improvement in profitability margins during FY17 supported by higher capacity utilisation

Total operating income of AIL, which registered a compounded annual growth rate (CAGR) of nearly 21% during past three years ended FY17, grew by a healthy ~26% during FY17 over FY16 on the back of improved capacity utilization and introduction of new products. During FY17, the company's PAT has almost doubled over FY16 with improvement in PBILDT and PAT margins at 8.15% [PY: 5.74%] and 3.78% [PY: 2.41%] respectively on account of improved operational efficiency.

The overall capacity utilisation of installed capacity improved to 54.85% during FY17 compared to 47.92% in FY16 and the same has improved further to 63.67% (annualised) during Q1FY18.

Diversified product portfolio to cater the requirements of multiple sectors

The company has presence in multiple product-segments of aluminium and is progressively formulating opportunities in various sectors. Alloy and Cored Wire businesses outperformed during FY17 whereby sales from Cored Wire business doubled to Rs.31.50 crore [PY: Rs.15.82 Crore] and sales from Alloy business grew five times to Rs.69.98 crore [PY:

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

Rs.10.99 crore] with steady realisation. During FY17, AIL has also commenced commercial production and sales from its Master Alloys and Ferro Alloys plants and recorded sales of Rs.1.12 crore. The company majorly operates in domestic market with pan-India presence; however it is constantly looking for opportunities in export market.

Equity infusion in FY17 leading to improvement in capital structure and debt coverage indicators
During FY17, AIL had raised equity of Rs.18.07 crore through preferential issue of convertible warrants which resulted in strengthening of its net-worth base. Consequently, AIL's overall gearing improved from 1.86 times as on March 31, 2016 to 1.14 times as on March 31, 2017. Debt coverage indicators also improved marked by improvement in interest coverage from 3.26 times during FY16 to 4.53 times during FY17.

Key Rating Weaknesses

End-user industry and customer concentration; albeit reputed clientele
AIL supplies to Steel, Automobile and other Sectors through its existing portfolio of products such as Aluminium Wire rod, Aluminium Deox, Cored Wire, Aluminium Alloy ingots, Master & Ferro Alloys and Conductor & Cables. Steel sector was the sole contributor in its revenue till FY15, whereas it started catering to Automobile and other sectors like power, etc. from FY16. As on June 30, 2017, the major contribution still comes from Steel sector which accounts for 76% of its total sales followed by Automobile at 21% and 2% came from other sectors. AIL faces customer concentration with top five customers contributing around 70% to the total operating income during FY17; 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 has elongated to 71 days in FY17 primarily on account of high inventory level upon growth in its product portfolio. AIL had largely low level of sanctioned working capital limit in place vis-à-vis its TOI in FY17. It got sanction of Rs.25 crore of fund based working capital limit at the end of year which marginally improved its liquidity.

Exposure to price volatility in raw materials and foreign exchange fluctuation risk
The main raw material of the company is aluminium scrap which is the major contributor to AIL' total costs comprising around 85-87% during past three years ended FY17. The company imports scrap mainly from European countries and its share stood at around 41% of the total raw material procurement cost during FY17 whereas majority of its sales are in the 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 aluminium industry in which the company operates is highly fragmented and competitive marked by the presence of numerous small players in India. Hence, the players in the industry do not have any significant pricing power and are exposed to competition induced pressures on profitability. This apart, its product being intermediary aluminium products is subject to the risks associated with the cyclicality and price volatility. However, AIL is an organised 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
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Arfin India Limited (AIL) incorporated in 1992, is based out of Ahmedabad, Gujarat and 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 55,400 MTPA as on June 30, 2017 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. The promoters are also associated with other sister concerns namely Mahendra Aluminium Company Limited (MACL), Krish Ferro Industries Private Limited and Mahendra Corporation. AIL has initiated a process to amalgamate MACL with itself and amalgamation is subject to receipt of requisite regulatory approvals and clearances.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	273.96	344.72
PBILDT	15.73	28.08
PAT	6.61	13.02
Overall gearing (times)	1.86	1.14
Interest coverage (times)	3.26	4.53

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.*

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****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.

Annexure-I: 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-Cash Credit	NA	NA	NA	62.50	CARE BBB; Positive
Non-fund-based - ST-Letter of credit	NA	NA	NA	5.00	CARE A3+

Annexure-II: 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.70	Suspended	-	-	-	1)Suspended (12-Feb-15)
2.	Fund-based - LT-Cash Credit	LT	23.00	Suspended	-	-	-	1)Suspended (12-Feb-15)
3.	Fund-based - LT-Cash Credit	LT	62.50	CARE BBB; Positive	-	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A3+	-	-	-	-

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