

Atul Engineering Udyog

May 27, 2020

Ratings

Facilities	Amount (Rs.crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.06	CARE B+; Stable ISSUER NOT COOPERATING* (Single B Plus; Outlook:Stable ISSUER NOT COOPERATING)	Issuer Not Cooperating; Revised from CARE BB-; Stable Issuer not cooperating* (Double B Minus; Outlook:Stable Issuer not cooperating*) on the basis of best available information
Long Term/ Short term Bank Facilities	1.44	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable / A Four; ISSUER NOT COOPERATING)	Issuer Not Cooperating; Revised from CARE BB-; Stable/ CARE A4 Issuer not cooperating* (Double B Minus; Outlook:Stable/ A Four Issuer not cooperating*) on the basis of best available information
Short term Bank Facilities	4.50	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING)	Issuer Not Cooperating; Based on best available information
Total	21.00 (Rupees Twenty One crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 04, 2019, placed the rating of **Atul Engineering Udyog** (AEU) under the 'issuer non-cooperating' category as AEU had failed to provide information for monitoring of the rating. AEU continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and email dated May 12, 2020, May 08, 2020 and May 06, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings has been revised by taking into account non-availability of information and no due-diligence conducted due to non-cooperation by AEU with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk. Further, the ratings continue to remain constrained on account of small and declining scale of operations with low profitability margins, customer concentration risk although mitigation of the risk by repeated orders from Indian Railway, elongated operating cycle and susceptibility of margins to fluctuations in raw material prices. The ratings, however, continues to derive strength from experienced partners, comfortable capital structure, moderate coverage indicators and low competition in the industry on account of high entry barrier.

Detailed description of the key rating drivers

Credit Risk Assessment

Key Rating Weakness

Small and declining scale of operations coupled with low profitability margins

The total operating income of the firm stood small marked by total operating income and gross cash accrual of Rs.31.51 crore and 0.93 crore in FY17 (FY refer to April 01 to March 31). The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. The scale of operations has been declining on y-o-y basis in the past three financial years (i.e. FY15-FY17) from Rs. 39.20 crore in FY15 to Rs. 31.51 crore in FY17 owing to lower value contracts executed. The profitability margins of the firm remained low for the past 3 financial years (FY15-17) on account of tender driven nature of business. The PBILD margin of the firm stood ranged bound (5%-6%) in the last 3 financial years (FY15-FY17) and stood at 5.57% in FY17. Also, PAT margin stood around unity during the said period.

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

*Issuer did not cooperate; Based on best available information

Customer concentration risk although mitigation of the risk by repeated orders from Indian Railway

The unexecuted order book of the company stood at Rs.26.00 crore as on June 30, 2017 which was to be executed by March 31, 2018. Though, the order book, was concentrated towards single contract from RDSO, Indian Railways; effective and timely execution has direct bearing on the margins attained. However, the risk of concentrated order book is mitigated as the firm has managed to get repeat orders from Indian Railways that signifies firm's satisfactory track record and timely execution capabilities. However, CARE is unable to comment on its present order book position due to non-cooperation from client.

Elongated operating cycle

AEU's collection period remains on the higher side as railway department is the major customer of the firm and the railway department releases money after testing and quality check process which takes considerable time. The same resulted in average collection period of 111 days for FY17. Further, the firm is required to maintain adequate inventory in the form of raw material to ensure smooth execution of production and work in progress is maintained as the railway department verifies the material before dispatches resulting in average inventory period of 70 days for FY17. The firm receives an average credit period of around two months from its suppliers resulting in an average creditor period of 42 days for FY17.

Susceptibility of margins to fluctuations in raw material prices

The main raw materials of the firm are pig iron and metal scraps. Raw material cost has always been a major contributor to total operating cost in past three years i.e. FY15-FY17 (FY refers to April 01 to March 31). The raw material cost constituted ~80% of the total cost of sales in FY17, thereby making profitability sensitive to raw material prices mainly due to the reason that the major raw material is commodity in nature and witness frequent price fluctuations. The prices are driven by the international prices which had been volatile in past. Thus any adverse change in the price of the raw material may affect the profitability margins of the firm.

Key Rating Strengths**Experienced partners**

The firm is currently being managed by Mr. R.S. Mittal, Mr. Naman Mittal and Mr. Varun Mittal. Mr. R.S. Mittal is a graduate by qualification and has an experience of around five decades in manufacturing of metal components industry through his association with AEU and other associate concerns. Prior to this, he was engaged in the business of metal components in his individual capacity. Mr Naman Mittal has an experience of around half a decade in the manufacturing of metal components industry through his association with AEU. The operations are well supported by Mr Varun Mittal; who has an overall experience of a decade in manufacturing of metal components industry through his association with AEU

Comfortable capital structure and moderate coverage indicators

The debt structure of the firm mainly comprises of term loan and working capital borrowings. The capital structure of the firm marked by overall gearing stood comfortable at 0.85x as on March 31, 2017. The average working capital limits of the firm remained utilized at around 48% for 12 months ending September 31, 2017. The coverage indicators remained at moderate levels with interest coverage indicators and total debt to gross cash accruals at above 2x and 12x respectively for the last 3 financial years i.e. FY15-FY17 (FY refers to April 01 to March 31) owing to lower level of financial expenses

Low competition in the industry on account of high entry barrier

The firm manufactures high tensile CVC components and coupler body components and loco side buffer assembly and side buffer arrangement as per the specification given by Research Designs and Standards Organization (RDSO). It is mandatory for the suppliers of Indian railways to get approvals from Research Design & Standard Organization to manufacture/supply any rail related products which is tedious process and thus poses a high entry barrier for any new player to enter into this industry.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[CARE's Methodology for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

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

About the Firm

Agra, Uttar Pradesh based AEU was established in 1984 as a partnership concern and is currently being managed by Mr Naman Mittal, Mr R.S. Mittal and Mr Varun Mittal sharing profit and losses equally. The firm gets contract through competitive bidding process. The firm manufactures high tensile CVC components and coupler body components and loco side buffer assembly and side buffer arrangement as per the specification given by Research Designs and Standards Organization (RDSO). The main raw materials used in the manufacturing of products are pig iron scrap, sheet scrap, ferrous alloys like ferrous chrome, manganese, silica, etc. which are procured from the traders and manufacturers located in Delhi & NCR and Jaipur region.

(Rs. In crore)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	36.58	31.51
PBILDT	1.85	1.75
PAT	0.88	1.00
Overall gearing (times)	0.91	0.85
Interest coverage (times)	2.20	2.12

A: Audited

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-Term Loan	-	-	April, 2024	5.06	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-BG/LC	-	-	-	4.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	1.44	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* on the basis of best available information

*Issuer did not cooperate; Based on best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	5.06	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (04-Mar-19)	1)CARE BB; Stable (02-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (04-Mar-19)	1)CARE BB; Stable (02-Feb-18)
3.	Non-fund-based - ST-BG/LC	ST	4.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	-	1)CARE A4; ISSUER NOT COOPERATING* (04-Mar-19)	1)CARE A4 (02-Feb-18)
4.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	1.44	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (04-Mar-19)	1)CARE BB; Stable / CARE A4 (02-Feb-18)

*Issuer did not cooperate; Based on best available information

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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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.

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