



Rating Rationale

Allied Recycling Limited

13 September 2017

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Allied Recycling Limited.

Particulars

Facility Rated	Amount (Rs. Crs)	Tenure	Rating *
Fund Based			
Term Loans	4.80	Long Term	BWR BB- (Pronounced as BWR Double B minus) Outlook: Stable
Cash Credit	25.00		
Total	Rs. 29.80 Crores (Rupees Twenty Nine Crores and Eighty Lacs Only)		

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings (BWR) has assigned rating for the long term fund-based facilities of Allied Recycling Limited (ARL or ‘the company’) on the basis of the documents received from the company and publicly available information.

While assigning the rating to Allied Recycling Limited (ARL or ‘the company’), BWR has factored in the promoters' extensive industry experience and their ability to infuse funds and mitigate the decline in profit margins, and improvement in cash conversion cycle. The rating is constrained on account of the entity's moderate scale of operations, moderate capital base, high TOL/TNW ratio, low cash accruals, low liquidity margin, high competition from players in both organized and unorganized segments, exposure of the company to volatility in steel prices and foreign exchange rates, and diversion of funds from core operations to non-revenue generating activities.

However, the ability of the management to increase the scale of operations profitably, timely servicing debt obligations, improvement in capital structure and ability to mitigate the risks arising from volatility in steel prices would be the key rating sensitivities.

Key Rating Weaknesses

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- 1. Scale of operations:** The firm has moderate scale of operations of Rs. 193.96 Crs in FY16 and Rs. 186.80 Crs in FY17. In FY 16, revenues from trading activities accounted 26% of the total revenues in order to stabilise the profit margins which declined with the fluctuations in raw material prices. However, in FY17, ARL was able to increase the scale of core-operations i.e. manufacturing by 26.44% and trading activities declined by 88% to 3.44%.
- 2. Weak debt-protection metrics:** The firm has moderately weak debt-protection metrics with ISCR at 1.79x and DSCR at 1.28x in FY16 and ISCR of 1.88x and DSCR of 1.25x in FY17 (unaudited), owing to low operating profit of Rs. 7.57 Crs in FY16 and 8.66 Crs in FY17 which is moderately sufficient to cater to interest payment obligations while the cash accruals are moderately low to service any long-term debt with adequate margin of safety.
- 3. Low Net Working Capital (NWC):** ARL's net working capital has been declining year-on-year from Rs. 9.09 Crs in FY15 to Rs. 7.60 Crs in FY16 to Rs. 3.16 Crs in FY17 (unaudited). The decline in NWC is due to increase in the capital expenditure without infusion of corresponding long term funds from own sources.
- 4. Low equity base:** The company had moderate net worth of Rs. 21.56 Crs in FY-16 and Rs. 22.58 Crs in FY-17.
- 5. Volatility in raw material prices:** The key raw material used in the production by the company is the steel. Steel prices have seen a sharp volatility in the previous financial years owing to which the hedging the price risk became important for the companies to mitigate the losses. ARL saw a decline in the operating margins in FY16 on account of higher raw material prices since the company did not mitigate the risks.

Key Rating Strengths

- 1. Promoter's experience:** Founded by industry experts viz. Mr. Surinder Kumar Garg and Mr. Vijay Abrol, ARL has been able to grow from a trading company to a manufacturing company. The said founder directors are felicitated by directors – Mr. Savinay Garg, Mr. Sanjay Garg, and Mr. Hitesh Abrol. The expertise through intensive industry experience has been the major pillar in growth of the business operations.
- 2. Stability in operations:** Ability of the company to book net revenue of Rs. 186.80 Crs in FY17 (3% decline from FY16) despite decline in overall industry due to demonetization. Also, the company reduced the dependence on trading activities and concentrated more on manufacturing (core activity). This shows the demand for company's core products rather traded goods in FY17.

Analytical Approach (Wherever applicable): Hyperlinks for the relevant rating criteria are mentioned below.



Rating Outlook: Stable

BWR believes the **Allied Recycling Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Allied Recycling Limited was set up by Mr Vijay Kumar Abrol and Mr. Surinder Kumar Garg in 2003 and is engaged in manufacturing of steel billets at its facility located at Ludhiana, Punjab. While 50% of the billets are used for manufacturing wire rods, the rest are sold. Trading in hot-rolled (HR) and cold-rolled (CR) sheets accounts for 30% of its revenue.

Company Financial Performance

Particulars	FY2016	FY2017
	(Audited)	(Provisional)
Net Sales/Revenues	193.96	186.80
EBIDTA	7.57	8.66
PAT	0.91	1.02
Tangible Networth	21.56	22.58
TOLt : TNW	2.48	2.22
Current Ratio	1.17	1.08

Rating History for the last three years: (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2017)			Rating History	
		Type	Amount (Rs Crs)	Rating	2016	2015
1	Term Loans	Long Term	4.80	BWR BB-	NA	NA
2	Cash Credit		25.00	Outlook: Stable		
	Total		29.80	(Rupees Twenty Nine Crores and Eighty Lacs Only)		

Status of non-cooperation with previous CRA (if applicable): Reason and comments: NA

Any other information: NA

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)



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For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9, 30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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