

Rating Rationale

Brickwork Ratings assigns ‘BWR BBB’ & ‘BWR A3+’ for the Bank Loan facilities amounting to ₹19 Cr of Agarwal Foundries.

Brickwork Ratings has assigned following **Rating**¹ for the Bank Loan facilities sanctioned by Indian Overseas Bank amounting to ₹ 19.00 Cr of *Agarwal Foundries* (“AF” or “the firm”)

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based Cash Credit	15.00	Long Term	BWR BBB (Pronounced as BWR Triple B) (Outlook: Stable)
Non Fund Based Letter of Credit	4.00	Short Term	BWR A3+ (Pronounced as BWR A Three Plus)
Total	19.00	INR Nineteen Crores only	

BWR has principally relied upon the audited financials up to FY14, and projected financials upto FY16, publicly available information and information/clarifications provided by the firm’s management.

The rating has factored the promoter’s experience & long track record of the Group in the steel industry, synergies derived from the operations of the firm being aligned to and integrated with the flagship company of the Group, and change in the firm’s product from Ingots to Billets for improved operational efficiency for the Group. However, the rating is constrained by constitution of the firm being a proprietorship, scale of operations, thin profit margins and working capital intensive nature of operations with high inventory holding period and stretched receivables.

Business Overview:

Agarwal Foundries, a proprietorship concern was established in the Year 1991 by Mr. Pramod Kumar Agarwal. The firm is involved in manufacturing of MS Ingots/Billets. The firm is into forward integration with flagship company “MS Agarwal Foundries Pvt Ltd”. The firm supplies Billets to MS Agarwal Foundries Pvt Ltd for manufacturing TMT Bars. Revenue from the “MS Agarwal Foundries Pvt Ltd” contributes to ~55% of the revenues in FY14. The firm’s production line was changed from Ingots to Billets in Nov 2014 at a cost of ~₹ 61.14 Lacs, financed with promoter's own funds. The firm’s manufacturing unit is located at Ranga Reddy District, Telangana. It has installed capacity of 30000 TPA for manufacturing MS Ingots/Billets.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Agarwal Foundries is part of MS Group. The group is engaged in the manufacture of long steel products and cotton yarn for over two decades. MS Agarwal Foundries Pvt Ltd, Maruti Ispat & Energy Pvt Ltd and Agarwal Foundries are integrated steel manufactures. Sitaram Spinners Pvt Ltd and Rama Spinners Pvt Ltd are into spinning cotton yarn.

Financial Performance:

Net sales have reduced from ₹ 99.61 Crores in FY13 to ₹ 89.03 Crores in FY14 due to decline the revenue from trading activity. Thin net profit margin of 0.92% in FY14, as against 0.77% in FY13. As o 31st March 2014, the tangible net worth stood at ₹ 14.37 Crores and the gearing level is moderate at 1.56 times. The firm has slightly stretched working capital cycle due to inventory holding period of 45 days and receivables of 88 days in FY14.

Rating Outlook:

Rating outlook for the firm is expected to be stable in the near term in view of forward integration with flagship company “MS Agarwal Foundries Pvt Ltd” which ensures regular orders. Going forward, continued Group support and the firm’s ability to scale up its operations, improve profit margins, strengthen capital structure and manage receivables and inventory efficiently will remain the key rating sensitivities.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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