



**RATING RATIONALE**

**18 Feb 2020**

**M/s Agarwal Trading Company**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹6.60 crores of M/s Agarwal Trading Company.**

**Particulars:**

| Facility                  | Amount (₹ Crs) |             | Tenure                                      | Previous Rating<br>(Sept 2018) | Rating<br>Present*             |
|---------------------------|----------------|-------------|---|--------------------------------|--------------------------------|
|                           | Previous       | Present     |   |                                |                                |
| Fund based<br>Cash Credit | 6.60           | 6.60        | Long<br>Term                                | BWR B+<br>Stable               | BWR B+<br>Stable<br>Reaffirmed |
| <b>Total</b>              | <b>6.60</b>    | <b>6.60</b> | <b>INR Six crores and sixty lakhs only.</b> |                                |                                |

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\*Annexure-I provides details of bank wise facilities

**RATING ACTION / OUTLOOK**

BWR has reaffirmed the rating of M/s Agarwal Trading Company to BWR B+ (Stable) deriving its strength from the experience of the management. However the rating is constrained by the constitution of the entity as a Proprietorship firm, Weak Financial Risk Profile and Competition from established players and highly Competitive and Commoditized Nature of the Business

**KEY RATING DRIVERS**

**Credit Strengths:**

- 1. Experienced proprietor and Long Track record of operations:** Proprietor Mr Ashish Kumar Agarwal has long experience in the same line of business and has gained thorough knowledge of the market. Firm was established in 1996 and since then the firm has a successful track record of business operations.



### **Credit risks:**

- 1. Constitution of Entity as Proprietorship Firm:** There is a disadvantage of the entity being constituted as a Proprietorship firm as this may affect the working of the firm in case of withdrawal of capital by the proprietor in the situation of personal exigency.
- 2. Below Average financial risk Profile:** Financial risk profile of the firm is characterized by High Gearing (Total Debt/TNW) of 14.86X for FY19 due to low tangible Net Worth of Rs 0.46 Cr for FY19 with below benchmark coverage ratio such as ISCR of 1.20X for FY19. Profitability margins such as operating margin and PAT margin of 3.10% and 0.51% respectively for FY19 are thin due to the trading nature of the business.
- 3. Competition from established players and highly Competitive and Commoditized Nature of the Business:** There is a high level of competition from already established players in the market. The ratings also take into account the highly competitive and commoditized nature of the iron and steel business and volatility in the prices.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES**

Going forward, the ability of the company to improve its scale of operations, profitability margins, overall credit risk profile and efficiently manage its working capital requirement would be the key rating sensitivities.

**Positive :** The rating outlook may be revised to positive if the company is able to significantly improve its profitability and substantial improvement in the order book.

**Negative :** The rating may be downgraded if there is a delay in debt servicing, substantial decline in revenues and deterioration in the liquidity profile of the company.

### **LIQUIDITY POSITION (Stretched)**

Cash and cash equivalents are Rs. 0.06 Cr for FY 19. The Current ratio of the company is low at 1.27 times and gearing ratio of the company is also high at 14.86 times for FY 19. The debt protection metrics are also low at ISCR at 1.20x and DSCR at 0.93x for FY 19. Average credit utilization for the last 8 months as per the lies between 80-85%.



Therefore, the overall liquidity position is stretched.

**COMPANY PROFILE**

Agarwal Trading company was established in the year 1996 as a proprietorship firm. The firm is engaged in trading of Iron & Steel. Mr Ashish Kumar Agarwal is currently proprietor in the firm and looks after day to day operations. The firm is established at Bahraich, Uttar Pradesh.

**KEY FINANCIAL INDICATORS (Rs in crores)**

| Key Parameters                | Units | 2019    | 2018    |
|-------------------------------|-------|---------|---------|
| Result Type                   |       | Audited | Audited |
| Operating Income              | ₹ Cr  | 25.51   | 22.50   |
| EBITDA                        | ₹ Cr  | 0.79    | 0.70    |
| PAT                           | ₹ Cr  | 0.13    | 0.10    |
| Tangible Net Worth            | ₹ Cr  | 0.46    | 0.36    |
| Total Debt/Tangible Net Worth | Times | 14.86   | 15.31   |
| Current Ratio                 | Times | 1.27    | 1.41    |

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:** None

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :** NA

**RATING HISTORY**

| Instrument /Facility              | Current Rating (2020) |                |   | Rating History      |                         |      |
|-----------------------------------|-----------------------|----------------|---|---------------------|-------------------------|------|
|                                   | Type                  | Amount (₹ Crs) | Rating                                      | 23/09/2019          | 20/09/2018              | 2017 |
| <b>Fund Based*</b><br>Cash Credit | Long Term             | 6.60           | <b>BWR B+</b><br>Stable<br>Reaffirmed       | Rating Not reviewed | <b>BWR B+</b><br>Stable | -    |
| <b>Total</b>                      |                       | <b>6.60</b>    | <b>INR Six crores and Sixty Lakhs Only.</b> |                     |                         |      |



## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

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

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### M/s Agarwal Trading Company ANNEXURE I

#### Details of Bank Facilities rated by BWR

| Sl. No.      | Name of the Bank | Type of Facilities | Long Term<br>{(₹ Cr)} | Short Term<br>(₹ Cr) | Total<br>(₹ Cr) |
|--------------|------------------|--------------------|-----------------------|----------------------|-----------------|
| 1.           | Allahabad bank   | Cash Credit        | 6.60                  | -                    | 6.60            |
| <b>TOTAL</b> |                  |                    |                       |                      | <b>6.60</b>     |

INR Six Crores and Sixty Lakhs Only



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