

## RATING RATIONALE

28 Sept 2020

### Aggarwal & Company

**Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 20.00 Crores of Aggarwal & Company (AAC or the ‘firm’)**

#### Particulars

Facility**	Amount (₹ Cr)	Tenure	Rating*
<b>Fund Based</b>	<b>10.00</b>	Long Term	<b>BWR BB Stable</b>
<b>Non-fund Based</b>	<b>15.00</b>	Short Term	<b>BWR A4</b>
<b>Total</b>	<b>25.00</b>		
<b>Total Ceiling/commitment</b>	<b>20.00</b>		<b>₹. Twenty Crores Only</b>

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

\*\* Details of Bank Loan facilities is provided in Annexures-I

#### RATING ACTION / OUTLOOK

The ratings draw comfort from the experienced promoters and management team, group support in terms of operational and financial synergies, moderate leverage financial risk profile along with adequate liquidity position.

The ratings, however, are constrained by firm;s marginal market share in a highly fragmented industry with low and fluctuating profitability. AAC’s revenues and profitability are exposed to fluctuations in raw material prices and foreign exchange rates and the exposure of its revenues to the cyclicity inherent in the steel industry. Further, the rating considers the risks associated with the partnership nature of the firm. The ratings also take into cognizance the expected moderation in AAC’s total operating income (TOI) and profitability during H1FY21 owing to Covid 19 led disruptions; however, it may be noted that, the firm has not availed any moratorium under RBI Covid 19 relief package and has maintained adequate liquidity position to service all its interest and debt obligations on due dates.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that AAC’s business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the firm records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to Negative if the firm reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experienced promoters and group support in terms of operational and financial synergies:** Aggarwal & Company is part of UB Agarwal Group. It has been involved in the ship breaking business since 1997. The key promoters, Mr. Balkrishna Agarwal, Mr. Mukesh Gupta and Mr. Sukesh Agarwal, have more than two decades of experience in the industry. The promoters also operate other companies that are involved in the similar line of business, leading to an established supplier base and sales network.
- **Comfortable Financial Risk Profile:** The financial risk profile of the firm is modest as marked by the moderate gearing ratio of 0.74times for FY 19. Considering the USL as quasi capital, adjusted gearing is 0.35times for FY19. The tangible net worth of the firm stood at 7.49 Crs in FY19. Interest coverage indicator is adequate at 2.46 times in FY19 as against an ISCR of 1.86 in FY18.

### Credit risks:

- **Marginal market share in a highly fragmented industry with low and fluctuating profitability:** Revenue was modest at 45.48 Crs in FY19 in the intensely competitive industry. This limits bargaining power with customers and suppliers. With a substantial fall in billet prices, revenue contribution from rolling mill was significantly lower in FY20. The firm has made an unrelated diversification in Food Products (Cashew) and revenue contribution from Cashew business was around 16% of total revenue for FY20. The firm has low profitability reflected by operating profit margin of 2.41% and net profit margin of 3.31% for FY19. Further, the margins are vulnerable to forex fluctuations, adverse movement in raw material prices and the cyclicity in the steel industry.
- **Limitation of partnership concern :** AAC is exposed to risks associated with partnership firms including the risk of capital withdrawal, which might adversely impact the capital structure.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

While assigning the Ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

## **RATING SENSITIVITIES**

### **Positive:**

Substantial growth in scale along with adequate profit margins  
Infusion of funds, effective working capital management- Strengthening of financial risk profile

### **Negative:**

Significant decline in revenue or profitability  
Withdrawal of capital/ deterioration in capital structure or liquidity profile

## **LIQUIDITY INDICATORS: Adequate**

The firm has sanction fund based working capital limit of 10 Crs and non-fund based working capital limit in the form of Letter of Credit of 15 Crs. The cash credit utilization was less than 50% for FY20. As on 31 Mar 2020, the firm had a cash balance of 1.29 Crs and access to undrawn fund-based limits of 5.56Crs. Current ratio is adequate at 1.43times for FY19 and 1.51 for FY20. The firm had net cash accruals of around 1.5 Crs against nil debt obligation for FY20.

## **FIRM'S PROFILE**

Aggarwal and Company (AAC) operates a steel rolling mill, which produces mild steel beams, channels, and angles, and trades coking coal. In Jan 2020, AAC set up a fully automated cashew manufacturing plant with a project cost of 3.53 Crs.

The Group is also involved in other businesses like steel re-rolling, scrap trading and coke manufacture.

Hans Industries Pvt Ltd (HIPL), acquired in 2007, is involved in steel rolling and manufacturing of mild steel beams, channels, and angles, at Bhavnagar.

Established in 1997, Guru Ashish Ship Breakers (AACB) is part of UB Agarwal Group which is managed by Mr Sukesh Agarwal and Mr Balkrishna Agarwal. AACB is primarily engaged in ship breaking activities at Alang, Gujarat.

Incorporated in 2004, United Coke Private Limited (UCPL) produces LAM coke. The business operations are carried out from Bhavnagar. The manufacturing unit is situated in Anjar, near Kandla port, in Gujarat.

## KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19 A	FY18 A
Result Type		Audited	Audited
Operating Income	Rs. Crores	45.48	33.80
EBITDA	Rs. Crores	1.10	1.54
PAT	Rs. Crores	1.51	0.86
Tangible Net Worth	Rs. Crores	10.20	8.84
Total Debt/TNW	Times	0.66	0.05
Current Ratio	Times	1.23	1.17

As per the provisional FY20, the firm recorded a TOI of 25.30 Crs with operating profit margin of 8.50%.

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED - Not applicable

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): NA

## RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Instrument Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount Rs. Crs.	Rating	2019	2018	2017
<b>Fund Based</b>	Long Term	<b>10.00</b>	<b>BWR BB Stable</b>	NA	NA	NA
<b>Non-fund Based</b>	Short Term	<b>15.00</b>	<b>BWR A4</b>	NA	NA	NA
<b>Total</b>		<b>25.00</b>				
<b>Total Ceiling/commitment</b>		<b>20.00</b>	<b>₹. Twenty Crores 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](#)

[Manufacturing Companies](#)

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### Aggarwal & Company

#### ANNEXURE I

#### Details of Bank Loan Facilities rated by BWR

Name of the Bank	Type of Facilities	Amount (₹ Cr)	Long Term/Short Term
Punjab National Bank	Cash Credit	10.00	Long Term
	<b>Total Fund Based Limit</b>	<b>10.00</b>	
	ILC/FLC (DA/DP)	15.00	Short Term
	<b>Total Non-Fund Based Limit</b>	<b>15.00</b>	
	<b>Total Commitment</b>	<b>Rs 20.00Crs</b> <b>Rs. Twenty Crores Only</b>	



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