Rating Rationale

Appu International

27 June 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 18.00 Crores of Appu International.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	**15.00**	**Long Term**	**BWR BB** (Pronounced as BWR Double B) **Outlook: Stable**
	3.00	**Short Term**	**BWR A4+** (Pronounced as BWR A Four Plus)
Total	**18.00**	**INR Eighteen Crores Only**	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18, some key financial numbers of FY19, publicly available information and information / clarification provided by the firm's management.

The rating has positively factored the extensive experience of the promoter and the management in the Bicycle components manufacturing industry as well as the firm's long standing track record.. The rating also factors the firm's long term association with well-known brands in the cycle industry and its moderate Networth position.

The rating is, however, constrained by the stagnant scale of operations of the firm and working capital intensive nature of the industry. The rating is further affected by the weak financial risk profile of the company i.e. high gearing and low coverage ratios and high interest costs of the firm.

Going forward, the firm's ability to grow its sales and improve operating margin as well as contain its financial costs along with improving its debt protection metrics will be the key rating sensitivities.

Description of Key Rating Drivers
Credit Strengths: ● **Extensive experience of the promoters:** The promoters of the firm Ms. Meenu Aul along with her husband Mr. Padam Kumar Aul have decades of experience in the Cycle component manufacturing industry. They have successfully run the firm for close to thirty years now. ● **Long standing track record of the firm:** The firm has a long history of successful operations after starting in the year 1991. The firm has come a long way since then and the promoters have also established new ventures under Appu Group. ● **Association with well-known brands:** The firm supplies cycle components to the biggest cycle manufacturers of country like Hero Cycles Ltd, Atlas Cycles Ltd, TI Cycles Ltd, etc. ● **Moderate Networth:** The firm had a moderate Networth position as on 31 Mar 2018 of Rs. 16.23 Crs. and is expected to be on the same lines as on 31 Mar 2019. However, the firm has invested or lent around Rs.7.55 Crs. to various associate companies of Appu Group and to other relatives, as per the Balance Sheet as on 31 Mar 2018 which weakens its networth position.
Credit Risks: ● **Modest scale of operations:** The firm's revenues fell to Rs.67.83 Crs. in FY19 before remaining in the Rs.80-90 Crs. range for three years from FY16-FY18. ● **Working capital intensive industry:** The firm operates in an industry which is highly working capital intensive. The firm had receivables & inventory days of 101 and 59 days respectively in FY18, though conversion cycle was 67 days for the same period because of days payable of 94 days. The liquidity position of the firm was further stretched due to almost 100% utilization of Working Capital facility from the bank. ● **Weak financial risk profile:** The firm's financial risk profile was weak in FY18 as reflected in a gearing (TOL/TNW) of 2.39 times. The debt protection metrics were also low in FY18 as reflected in DSCR & ISCR of 0.89x & 1.13x. ● **High interest costs:** The firm's interest costs have been consistently surging over the years with it increasing to Rs.3.44 Crs. in FY18 from Rs. 2.72 Crs. in FY17 (an increase of 26.47%). As a result of a high interest cost in FY18, the firm had a negative OPBT (Operating Profit Before Tax) and it was only for the Non-operating income (interest income) of Rs. 1.43 Crs. that the firm's bottom line did not go into negative.

Analytical Approach

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 Outlook: Stable

BWR believes the **Appu International** 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 Firm

Appu International (AI) was started in the year 1992 by its proprietor Mrs. Meenu Aul in the city of Ludhiana, Punjab. The firm is into the manufacturing of cycle components like frame, fork, handle, basket, chain wheel, seat, tubular and sheet auto components. The firm is a leading supplier to various top cycle manufacturers like Hero Cycles Ltd, Atlas Cycles Ltd, TI Cycles Ltd ctc. The firm has two manufacturing units in Ludhiana which together have a manufacturing capacity of producing 2.50 Lakh Handles, 1.50 Lakh Seats, 1.50 Lakh Chain wheels, 1.25 Lakh Frames, 1.50 Lakhs Forks, 1.20 Lakh Baskets and 1.20 Lakh Dress guards yearly.

Firm's Financial Performance

The operating Income of the firm increased in FY19 by 9.75% as compared to FY17. In FY19 , as informed by the firm's management, it has achieved sales of Rs.67.83 Crs. Although Operating Margin improved in FY18 over FY17 margin but the Net Margin in FY18 dropped due to a high Interest cost. Networth increased in FY18 by Rs.1.89 Crs. over FY17 to Rs.16.23 Crs. Gearing (Total Debt/TNW) was moderate at 1.11 times as on 31 Mar 2018. DSCR was lower than the benchmark level at 0.89 times in FY18 while ISCR was just above the safety level at 1.13 times in FY18.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	89.73	81.76
EBITDA	₹ Cr	3.88	3.25
PAT	₹ Cr	1.41	1.55
Tangible Net worth*	₹ Cr	16.23	14.34
TOL / TNW	Times	2.39	2.54
Current Ratio	Times	1.56	2.11

* The firm has invested / lent Rs.7.55 Crs. to associate firm/s/companies of Appu Group and other relatives.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	2017	2016
I	**Fund Based**	Long Term	15.00	**BWR BB** (Pronounced as BWR Double B) Outlook: Stable	**NA**		
II	**Fund Based**	Short Term	3.00	**BWR A4+** (Pronounced as BWR A Four Plus)			
	Total		**18.00**	**₹ Eighteen Crores Only**			

Status of non-cooperation with previous CRA (if applicable)- NA

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short Term Debt

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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, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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