



## Rating Rationale

### Agarwal Foundries

30 May 2018

**Brickwork Ratings reaffirms BWR BBB/A3+ for the existing and proposed bank loan facilities of Rs. 23.50 Crores of Agarwal Foundries ('AF' or 'The Concern')**

#### Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating <sup>1</sup>	
	Previous	Present*		Previous Apr 2017	Present
<b>Fund Based</b>					
Cash Credit	15.00	15.00	Long Term	<b>BWR BBB</b> (Pronounced BWR Triple B) <b>Outlook: Stable</b>	<b>BWR BBB</b> (Pronounced BWR Triple B) <b>Outlook: Stable (Reaffirmed)</b>
Proposed Term Loan	-	4.50			
<b>Non fund Based</b>					
Letter of Credit	4.00	4.00	Short Term	<b>BWR A3+</b> (Pronounced BWR A Three Plus)	<b>BWR A3+</b> (Pronounced BWR A Three Plus) <b>(Reaffirmed)</b>
<b>Total</b>	<b>19.00</b>	<b>Rs.23.50 Crores (Rupees Twenty Three Crores and Fifty Lakhs Only)</b>			

<sup>1</sup>Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*Annexure I provide bank-wise details of facilities

#### Ratings reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the concern upto FY17, provisional financials of FY18, projected financials upto FY20, publicly available information and information/clarifications provided by the management.

The ratings continue to draw comfort from the promoters' extensive industry experience, established track record of the Hyderabad based MS Group in the steel industry, overall group strength and synergies derived from the operations of the concern being aligned to and integrated with the flagship company of the Group (MS Agarwal Foundries Private Limited). The ratings also draw comfort from the comfortable



debt protection metrics of the concern. However, the ratings remain constrained by the proprietorship constitution, thin profitability and working capital intensive nature of operations.

Going forward, the concern's ability to increase its scale of operations, improve profitability, strengthen its overall credit profile and manage its working capital efficiently will continue to be the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes **Agarwal Foundries'** 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.

### **Key Rating drivers:**

- **Experienced Management** : The promoters and the MS group have experience of over three decades in the Steel business.
- **Group support and integrated operations** : The concern is into forward integration with the flagship Company "MS Agarwal Foundries Pvt Ltd" (rated BWR BBB+/A2) of the Hyderabad based MS group. The concern supplies Billets to MS Agarwal Foundries Pvt Ltd for manufacturing TMT Bars. The group entities are managed/operated by the same promoters and there are strong managerial and operational synergies.
- **Moderate financial risk profile**: The Concern has reported total operating income and PAT of Rs. 82.07 crs and Rs. 0.68 crs in FY17 as against total operating income and PAT of Rs.105.19 crs and of Rs. 0.72 crs in FY16. Operating profitability has marginally improved to 3.01% in FY17 as against 2.12% in FY16. Debt equity level was moderate at 1.04 times as on 31 Mar 2017. On a provisional basis, concern has shown improvement in revenue to around Rs. 106 crs for FY18.
- **Cyclicality associated with the industry and susceptibility to volatility of raw material prices**: : Revenues and cash flows of the concern remain vulnerable to fluctuations in demand and the cyclical nature of the steel industry. Profitability of AF is susceptible to adverse movement in the price of raw materials.
- **Working Capital intensive** : The Concern's operations are working capital intensive with elongated receivables, owing to the nature of the industry.

### **Analytical approach**

While assigning ratings, BWR has taken note of the fact that the concern belongs to the established and diversified MS group of entities and derives benefits therefrom. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

### **About the Concern**



Agarwal Foundries, a proprietorship concern, was established in 1991 at Ranga Reddy district, Telangana by Mr Pramod Kumar Agarwal. The concern is involved in manufacturing of MS Ingots/Billets. Agarwal Foundries is part of Hyderabad based MS Group of companies. The group is engaged in the manufacturing of long steel products and processing of cotton yarn for over two decades. AF's operations are forward integrated with its flagship company "MS Agarwal Foundries Pvt Ltd". The concern supplies Billets to MS Agarwal Foundries Pvt Ltd for manufacturing TMT Bars. Revenue from "MS Agarwal Foundries Pvt Ltd" contributes ~20 % of the revenues in FY18. The concern's manufacturing unit is located at Ranga Reddy District, Telangana. It has an installed capacity of 30000 TPA for manufacturing MS Ingots / Billets.

The other group companies are MS Agarwal Foundries Pvt Ltd (rated BBB+ (Stable)/A2), Maruti Ispat & Energy Pvt Ltd (rated BBB+ (Stable)/A3) (all integrated steel manufacturer), Sitaram Spinners Pvt Ltd (rated BBB (Stable)/A3) and Rama Spinners Pvt Ltd (rated BBB- (Stable)/A3), which are into spinning and cotton yarn.

### Financial Performance

Agarwal Foundries reported total operating income of Rs.82.07 Crs and PAT of Rs. 0.68 Crs in FY17 as against total operating income of Rs. 105.19 Crs and PAT of Rs. 0.72 Crs in FY16. Net worth was Rs.15.25 crs as on March 31 2017. Gearing was moderate with D/E ratio of 1.04 times as on 31 march 2017. ISCR and DSCR were 1.49 times and 1.74 times respectively and Current ratio was 1.64 times as on March 31 2017. On a provisional basis, the concern has reported revenue of around Rs. 106 crs for FY18.

**Status of non-cooperation with previous CRA (if applicable): Nil**

**Any other information : NA**

**Rating History for the last three years :**

Sl. No.	Facility	Current Rating			Rating History <sup>^</sup>		
		Type	Amount (Rs Crs)	Rating	12 Apr 2017*	25 Apr 2016*	08 Apr 2015*
1	Cash Credit	Long term	15.0	<b>BWR BBB</b> Outlook: Stable <b>Reaffirmed</b>	<b>BWR BBB</b> Outlook: Stable <b>Reaffirmed</b>	<b>BWR BBB</b> Outlook: Stable <b>Reaffirmed</b>	<b>BWR BBB</b> Outlook: Stable <b>Assigned</b>
2	Proposed Term Loan		4.50				
3	Letter of Credit	Short Term	5.00	<b>BWR A3+</b> <b>Reaffirmed</b>	<b>BWR A3+</b> <b>Reaffirmed</b>	<b>BWR A3+</b> <b>Reaffirmed</b>	<b>BWR A3+</b> <b>Assigned</b>



	<b>Total</b>		<b>23.50</b>	<b>(Rupees Twenty Three Crores and Fifty Lakhs Only)</b>
--	--------------	--	--------------	--

\* amount rated Rs. 19.00 crs

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Group Support](#)

Analysts	Media
<b>Rajee R</b> <b>General Manager- Ratings</b> <a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>
	Relationship Contact
	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone: 1-860-425-2742</b>	

**Agarwal Foundries**  
**Annexure I**  
**Bank Facilities Details (Rs. Crs)**

Name of the Bank	Facilities	Tenor	Amount (Rs. Cr.)
<b>Indian Overseas Bank</b>	Cash Credit	Long Term	15.00
	Proposed term loan		4.50
	Letter of Credit	Short Term	4.00
<b>TOTAL</b>			<b>23.50</b>



**Agarwal Foundries  
Annexure II  
Key Financial Indicators**

		<b>FY 16 (A)</b>	<b>FY 17 (A)</b>
Total Operating Income	Rs. Crs	105.19	82.07
EBIDTA	Rs. Crs	2.23	2.47
PAT	Rs. Crs	0.72	0.68
Tangible Net worth	Rs. Crs	15.23	15.25
Total Debt/ TNW	Times	1.03	1.04
Current Ratio	Times	1.68	1.64

**For print and digital media**

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto: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**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.