

Rating Report

Brickwork Ratings reaffirms 'BWR BBB/A3+' for the Bank Loan facilities aggregating Rs 19.00 Crs of Agarwal Foundries

On a review, Brickwork Ratings (BWR) has reaffirmed the **Ratings¹** for the bank loan facilities of Agarwal Foundries ("AF" or "the Concern") as follows:

Facility	Previous Rating Amount (₹ Cr)	Present Rating Amount (₹ Cr)	Tenure	Previous Rating (April 2015)	Present Rating (April 2016)
Fund based : Cash Credit	15.00	15.00	Long Term	BWR BBB (Pronounced BWR Triple B) (Outlook: Stable)	BWR BBB (Pronounced BWR Triple B) (Outlook: Stable) Reaffirmed
Non Fund based : Letter Of Credit	4.00	4.00	Short Term	BWR A3+ (Pronounced BWR A Three Plus)	BWR A3+ (Pronounced BWR A Three Plus) Reaffirmed
Total	19.00	19.00	INR Nineteen Crores Only		

BWR has principally relied upon the audited financial results upto FY15, publicly available information and clarifications as provided by the concern's 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). However, the ratings remain constrained by the proprietorship nature of constitution, thin profitability, decline in debt servicing metrics and working capital intensive nature of operations.

Business Overview :

Agarwal Foundries, a proprietorship concern, was established in 1991 at Ranga Reddy district, Telangana by Mr Promod Kumar Agarwal.

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

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 to ~50 % of the revenues in FY15. The concern's manufacturing unit is located at Ranga Reddy District, Telangana. It has installed capacity of 30000 TPA for manufacturing MS Ingots / Billets.

The other group companies are MS Agarwal Foundries Pvt Ltd, Maruti Ispat & Energy Pvt Ltd (all integrated steel manufacturers), Sitaram Spinners Pvt Ltd and Rama Spinners Pvt Ltd, which are into spinning and cotton yarn. At Consolidated Group level, revenues stood at around Rs 945.00 Crs for FY15.

Financial Performance

Net Sales decreased to Rs 73.58 Crs in FY15 compared to Rs 89.03 Crs in FY14, mainly on account of decline in steel prices. PAT was Rs 0.71 Crs in FY15 compared to Rs 0.82 Crs in FY14. Proprietor's capital as on 31st March 2015 stood at Rs. 14.54 Crs. On a provisional basis, for FY16, the concern has reported net sales of around Rs 111 Crs.

Credit Risk Analysis

- Steel industry is characterized by the demand - supply dynamics, other industries like infrastructure, construction and power sector's demand. Commodity prices in the international and national markets and demand of steel from other countries like China and as well as imports from other countries. In this scenario, concern should derive a strategy to optimally utilize the capacity, produce quality products and reduce / manage the input cost of the production.
- Concern has achieved a Net Sales of Rs. 73.58 Crs in FY15 compared to Rs. 89.03 Crs in FY14, the decrease is due to the decline of steel prices and lesser capacity utilization (%) of the concern in FY15 compared to FY14. Concern should optimally utilize the installed capacity and decrease the inventory level for increasing the scale of the operations of the concern.
- Tangible proprietor's capital of the concern was Rs. 14.54 Crs as on 31st March 2015. Tangible proprietor's capital is low and the group support / performance of the flagship company, MS Agarwal Foundries Pvt Ltd is an important factor for strengthening the credit risk profile of this concern.
- Debt Servicing metrics : ISCR and DSCR stood at 1.54 times and 1.53 times respectively for FY15 compared to 2.03 times and 1.56 times respectively in FY14. Increase in debt servicing metrics will be key factor for the improvement in the credit risk profile of the concern.

- Gearing ratio and Current ratio of the concern were 1.10 times and 1.47 times as on 31st March 2015, compared to 1.56 times and 1.41 times as on 31st March 2014.
- Profitability margins – Net Profit margins and Operating profit margins were 0.96 % and 4.69 % respectively in FY15 compared to 0.87% and 4.27% respectively in FY14. Increase in profitability margins will be a key factor for the improvement in the credit risk profile of the concern.

Rating Outlook

The rating outlook is expected to be stable over the current year. Going forward, the ability of the concern to increase its scale of operations, improve profitability, ensure optimum capacity utilization, increase operational efficiency and efficiently manage its working capital will be the key rating sensitivities.

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Annexure – I
Profit & Loss Statement

Rs. Crores	FY 13	FY 14	FY 15
	Audited	Audited	Audited
Net Sales	99.61	89.03	73.58
Other Operating Income	2.04	4.48	0.00
Total Operating Income	101.65	93.51	73.58
Operating Expenses	98.82	89.51	70.13
OPBDIT	2.83	4.00	3.45
Depreciation/Amortization/Impairment	0.36	0.35	0.55
OPBIT	2.47	3.64	2.90
Interest and Finance Charges	1.80	1.97	2.25
OPBT	0.67	1.67	0.66
Non Operating Income(Expenses)	0.10	-0.86	0.05
PBT	0.77	0.82	0.71

Annexure – II
Balance Sheet Statement

Rs. Crores	31/Mar/2013	31/Mar/2014	31/Mar/2015
	Audited	Audited	Audited
Liabilities			
Proprietor's Capital Account	10.18	14.37	14.54
Proprietor's Capital	9.41	13.55	13.83
Reserves and Surplus	0.77	0.82	0.71
Non-current liabilities	0.32	0.30	0.14
Long-Term Borrowings	0.32	0.30	0.14
Current liabilities	26.63	30.46	23.12
Short-Term Borrowings	12.16	22.05	15.88
Current Portion Of Long Term Debt	0.00	0.00	0.00
Trade Payables	14.33	8.35	6.43
Other Current Liabilities	0.00	0.00	0.82
Short-Term Provisions	0.14	0.06	0.01
Total Liabilities	37.13	45.12	37.80
ASSETS			
Non-current assets	2.17	2.18	3.83
Net Fixed assets	2.17	2.18	3.83
Current assets	34.97	42.94	33.97
Current Investments	1.48	0.86	0.00
Inventories	7.41	14.41	8.17
Trade Receivables > Six Months	0.00	0.00	0.00
Trade Receivables < Six Months	22.48	20.56	18.78
Cash and Cash Equivalents	0.31	1.00	0.02
Short-Term Loans and Advances	2.14	1.79	3.36
Other Current Assets	1.15	4.31	3.64
Total Assets	37.13	45.12	37.80

Annexure – III
Key Financial Ratios

Financial Parameter	Units	31/Mar/2013	31/Mar/2014	31/Mar/2015
		Audited	Audited	Audited
Total Debt	Rs. Crs	12.48	22.34	16.02
Total Debt (Analyzed)	Rs. Crs	12.48	22.34	16.02
Tangible Proprietor's Capital	Rs. Crs	10.18	14.37	14.54
Tangible Proprietor's Capital (Analyzed)	Rs. Crs	10.18	14.37	14.54
Capital Employed	Rs. Crs	22.66	36.71	30.56
Total Debt/TNW	Times	1.23	1.56	1.10
Total Debt/TNW(Analyzed)	Times	1.23	1.56	1.10
Long Term Debt/TNW	Times	0.03	0.02	0.01
TOL/TNW	Times	2.65	2.14	1.60
ISCR	Times	1.57	2.03	1.54
ISCR(Analyzed)	Times	1.57	2.03	1.54
DSCR	Times	1.62	1.56	1.53
DSCR(Analyzed)	Times	1.54	-0.26	1.53
Net Cash Accruals/Total Debt	Times	0.11	0.02	0.08
Net Cash Accruals/Long Term Debt	Times	4.23	1.39	9.16
Net Profit Margin	%	0.75	0.87	0.96
Operating Profit Margin	%	2.78	4.27	4.69
ROCE	%	11.29	12.28	8.63
Current Ratio	Times	1.31	1.41	1.47
Current Ratio(Analyzed)	Times	1.31	1.41	1.47
Days Receivables	Days	47	88	98
Days Inventory	Days	46	45	59
Days Payable	Days	47	62	57
Conversion Cycle	Days	46	71	100