



Press Release

Arjan Impex Private Limited

May 13, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	9.44	IVR BBB-(Under Credit watch with developing implications) (IVR Triple B Minus Under credit watch with developing implications)	Revised from IVR BB+/Stable Outlook (Under credit watch with developing implications)
Short Term Bank Facilities	54.70	IVR A3 (Under credit watch with developing implications) (IVR Single A Three Under credit watch with developing implications)	Revised from IVR A4+ (Under credit watch with developing implications)
Total	64.14		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Arjan Impex Private Limited (AIPL) takes into account improvement in scale of operation in FY19 and in 9MFY20 with improvement in gross cash accruals. Further, the ratings continues to derive comfort from extensive experience of its promoters in the pet ware and food service equipment industry, diversified product profile, reputed clientele and satisfactory profitability. These rating strengths continues to remain partially offset by customer concentration in its revenue profile, working capital intensive nature of operations with leveraged capital structure.

The ratings have further been placed on credit watch with developing implications on account of covid-19 outbreak in its key markets, USA & UK, leading to slowdown in the economy and created uncertainties. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.



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Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and profitability
- Improvement in the capital structure and debt protection metrics
- Improvement in working capital cycle leading to improvement in liquidity

Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin,
- Any stretch in the working capital cycle driven by stretch in receivables affecting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 2x and interest coverage to below 1.5x
- Withdrawal of unsecured loans amounting to Rs.8.46 crore (outstanding as on March 31, 2019 treated as quasi equity) and/or moderation in the capital structure.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters in the pet ware and food service equipment industry**

The promoters have long standing experience in the business of manufacturing and selling pet ware and hotel ware products. Extensive experience of the promoters has helped to establish a healthy relationship with customers and suppliers. The Company is likely to benefit from the promoter's extensive experience over the medium term.

- **Improvement in scale of operation in FY19 and in 9MFY20 with satisfactory albeit range bound profitability**

The company reported ~15% y-o-y growth in revenues from Rs.119.11 crore in FY18 to Rs.137.52 crore in FY19 due to increase in demand and number of orders from both existing and new clients. The EBIDTA margin registered marginal improvement to 7.81% in FY19 from 7.49% in FY18 mainly on account of reduction in trading sales during the year. During 9MFY20, the company has achieved sales of Rs.106.47 crore in 9MFY20 as against Rs.82.83



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crore in 9M FY19 due to increase in demand and opening of a display centre and office in USA which increased export market penetration. The EBITDA margin have also improved from 8.32% to 10.03% as the company has increased the prices of the products coupled with change in taste of customer preferences, as the customers have become more quality conscious and required better products irrespective of the pricing.

- **Diversified product profile**

AIPL has a diversified product profile covering a wide range of products such as pet feeders, bedding and apparel for pets, gastronomic pans, barware, kitchenware etc. While pet ware contributed 47.44 per cent to the company's revenue in FY19, soft goods and kitchenware/hotel ware contributed ~23 per cent and ~30 per cent respectively. The Company is likely to benefit from its diversified product profile over the medium term.

- **Reputed clientele**

AIPL derives ~ 98 per cent of its revenue from exports to USA and Europe. The company's clients include reputed companies, pet specialty stores, mass departmental stores, mail orders companies, leading importers and private labels.

Key Rating Weaknesses

- **Customer concentration in revenue profile**

AIPL is exposed to customer concentration risk in its revenue profile as it derives ~ 53 per cent of its revenue from top 10 customers. Further, three customers contributed ~25 per cent to its sales in FY19. The customer concentration is likely to continue in the near to medium term.

- **Working capital intensive operations**

The operation of the company is working capital intensive as AIPL needs to hold a sizable inventory to respond to customer demand effectively. Further, the company extends credit period of about 60 to 90 days to its customers which also increases its working capital requirements. The operating cycle of the company stood at over 120 days in the past two years ended FY19.



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- **Average financial risk profile**

AIPL has an average financial risk profile as reflected in a moderate adjusted net worth of Rs.36.73 crore as on March 31, 2019 and TOL/ANW of 2.54x (unsecured loans treated as quasi equity). Further, the debt protection metrics also remained average marked by total debt/ GCA of 11.63x.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term marked by its expected gross cash accruals in the range of Rs.11-13.75 crore during FY21-22 as compared to its debt repayment obligation of Rs.4.10 crore each year. Further, the average utilisation of its fund based working capital limit remains satisfactory at ~74% during the past 12 months ended April, 2020 indicating an adequate liquidity buffer.

About the Company

Incorporated in 1996, Arjan Impex Pvt Ltd (Arjan) is headquartered in New Delhi. The Company is engaged in the manufacture and export of food service products and pet products.

Financials: Standalone

For the year ended*/As on	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	119.11	137.52
EBITDA	8.85	10.74
PAT	2.23	3.25
Tangible Net worth	25.02	28.27
^Adjusted Net Worth	30.88	34.82
EBITDA Margin (%)	7.43	7.81
PAT Margin (%)	1.88	2.36
Overall Gearing Ratio (x)	1.67	1.50



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**As per Infomerics Standards*

^ Unsecured loans from promoters have been treated as quasi equity as the same is subordinated to bank facilities

Status of non-cooperation with previous CRA: The rating was migrated to Issuer non-cooperating category by CRISIL vide its press release dated July 04, 2019 due to lack of cooperation from the client.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	9.44	IVR BBB- /Credit watch with developing implications (IVR Triple B iMinus Under credit watch with developing implications)	-	IVR BB+/Stable (March 05, 2019)	-
2.	EPC/PCFC	Short Term	54.70	IVR A3 (IVR Single A Three Under credit watch with developing implications)	-	IVR A4+ (March 05, 2019)	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	Dec. 2024	9.44	IVR BBB-/Credit watch with developing implications (IVR Triple B Minus Under credit watch with developing implications)
Short Term Bank	-	-	-	54.70	IVR A3



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Facilities – EPC/PCFC					(IVR Single A Three Under credit watch with developing implications)
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