Press Release

Auro Impex & Chemicals Limited

April 12, 2023

Ratings

Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	30.44 (Includes proposed limit of Rs. 7.00 crore)	IVR BB+/ Stable (IVR Double B plus with stable outlook)	Assigned	Simple
Short Term Bank Facilities	14.56 (Includes proposed limit of Rs. 10.16 crore)	IVR A4+ (IVR A four plus)	Assigned	Simple
Total	**45.00 (Rs. Forty-five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Auro Impex & Chemicals Limited (AICL) derives strength from long track record of operations with experience and resourceful promoters, steady Improvement in scale of operations and profitability, moderate capital structure and adequate debt coverage indicators, and established relationship with its suppliers and clientele with reputed client base. However, these rating strengths are constrained by relatively modest scale of current operations, susceptibility of profitability due to fluctuation in raw material prices with lack of backward integration, exposed to customer concentration risk, cyclicality inherent in industry which is expected to keep entity's cash flows volatile, and working capital intensive nature of operations.

Rating Sensitivities

Upward Factors

- Sustained improvement in scale of operation and sustenance of operating margin, leading to improvement in cash accruals and debt protection metrics.
- Improvement in the capital structure with improvement in overall gearing to below 1.25x and/or improvement in debt protection metrics.
- Effective working capital management leading to improvement in liquidity

Downward Factors

- Moderation in the scale of operations of the entity and/or moderation in profitability.
- Withdrawal of subordinated unsecured loan affecting the capital structure with deterioration in overall gearing to above 2x
- Elongation in operating cycle impacting the liquidity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Long track record of operations with experienced and resourceful promoters**
  AICL's operations are overseen by its promoters Mr. Madhusudan Goenka and Mr. Praveen Kumar Goenka who are having industry experience of over 40 years. The company has a diversified product profile including Electrostatic Precipitators (ESPs), Porcelain Hollow, Wall through & Rapping drive Bushings, Rappers Mechanical, ESP Internal Components etc which primarily find use in power, cement, sugar and steel industries. AICL is in the process to envisage a new High Frequency Transformer Rectifier (HFTR) manufacturing unit to diversify its product range and become one stop solution for its clients.

- **Steady Improvement in scale of operations and profitability**
  The total operating income of AICL has shown decent growth in the last few years. The revenue of AICL was Rs.37.27 crore in FY20 which grew to Rs.110.08 in FY22. The entity grew by around 96% in FY21 and by around 50% in FY22. The rise in revenue was majorly driven by increased market share catering to larger customer base. Consequently, it generated EBITDA of Rs. 4.47 crore in FY22 (Rs. 2.65 crore in FY21) and PAT of Rs. 2.05 crore in FY22 (Rs. 0.91 crore in FY21). The EBIDTA margin of the entity remained satisfactory above 4% in FY22 and is expected to improve further by achieving economies of scale with growing scale of operations and the PAT margins stood at 2.51% in FY22 vis-à-vis 1.27% in FY21. Further, the company has generated revenue of ~Rs. 121.49 crore, EBITDA of ~Rs. 6.96 crore, and ~PAT of Rs. 3.46 crore respectively in 9M FY23. Going forward the revenue of AICL is expected to grow further with the expansion of the existing manufacturing unit and larger client base.
- **Moderate capital structure and adequate debt coverage indicators**

The company's adjusted net worth as on March 31, 2022, consisted of subordinated unsecured loans aggregating to Rs. 4.39 crore from the promoters which is considered as quasi equity. Considering the same the adjusted tangible net worth of the company stood at Rs.11.34 crore as on March 31, 2022, compared with Rs. 9.19 crore as on March 31, 2021. However, the overall gearing ratio on adjusted TNW has deteriorated to 1.74x as on March 31, 2022, from 1.27x as on March 31, 2021, on account of availment of term loan and higher closing balance of fund-based facility as on the balance sheet date. Further, total indebtedness of the company as reflected by TOL/ATNW moderated to 3.23x as on March 31, 2022, from 2.65x as on March 31, 2021. The same are expected to improve further going forward with increased cash accruals with growth in scale. The interest coverage ratio remained comfortable at 2.77x in FY22 (2.39x in FY21). DSCR though moderated, stood comfortable at 2.07 x in FY22 (2.21x in FY21).

- **Established relationship with its suppliers and clientele with reputed client base**

  AICL's promoters have developed established relations with its customers and suppliers over their tenure in the industry. AICL's plant is located in the industrial belt of Hooghly, West Bengal where the raw materials are available in abundance. The entity has reputed suppliers like Steel Authority of India Limited, Jai Balaji Industries Limited amongst others. Moreover, AICL has a reputed client base, which includes major OEMs such as Thermax Limited and direct customers like KC Cotrell India Pvt. Ltd and Hariaksh Industries Pvt. Ltd. The company has established healthy relationship with the OEMs over the past few years. Further, it makes tailor-made engineering products, wherein precision and quality remain important for the clients than price resulting in significant entry barriers for new players. Established relationship with key suppliers and customers has resulted in timely supply of materials and repeat orders. Infomerics believes that AICL will continue to benefit from the established relations with customers and suppliers.

Key Rating Weaknesses

- **Relatively modest scale of current operations**

  The current scale of operations of the company remained relatively moderate notwithstanding an improvement witnessed over the past few years, which also resulted in moderate levels of profits and cash accruals on an absolute basis.

- **Susceptibility of profitability due to fluctuation in raw material prices with lack of backward integration**

  AICL is exposed to volatility in input prices as the time lag between the procurement of raw material and bagging up of order exposes AICL to volatility associated with raw material prices since the steel prices are highly volatile in nature. The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the steel industry. Major raw materials required for the company are CR coils and power. The company lacks captive power and backward integration for its basic raw materials, though the entity has started to reuse its scrap by melting the same and using as raw material which is small percentage of its total raw material requirements. Since the raw material is the major cost driver and the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices.

- **Exposed to customer concentration risk**

  The company revenue has been primarily dependent on its top five customers. It generated ~61% of its FY22 revenue and ~70% of its FY21 revenue from its top five customers, exposing it to high customer concentration risk.

- **Cyclicality inherent in industry which is expected to keep entity's cash flows volatile**

  The prospects of the Cold Roll Formed Electrostatic Precipitators are strongly correlated and linked to the performance of the various industries such as steel, power, cement, sugar, paper etc. since Electrostatic Precipitators are majorly used for such industries. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When a downturn occurs in these economies or sectors, the steel industry generally witnesses steep decline in demand.

- **Working capital intensive nature of operations**

  The operations of the company are working capital intensive since the company has to keep adequate raw material in its inventory. The operating cycle have been at 55 days in FY22 and the average utilisation of bank borrowings stood moderate at 86% during last

12 months ending in December 2022. Going forward with growing scale and expansion of customer base the working capital requirements will further increase.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook

Liquidity – Adequate

The liquidity position of the entity is expected to remain adequate in the near to medium term marked by its expected satisfactory cash accruals against lower debt repayment obligations. The operating cycle of the company has remained at 55 days in FY22. However, AICL's average working-capital utilization remained high at around 86% for the trailing 12 months period ended December 2022 which indicates a moderate liquidity buffer. Going forward the cash accruals of the entity is expected to remain sufficient against its debt repayment obligations.

About the Company

Auro Impex & Chemicals Limited (AICL) was founded in the year 1991 by Mr. Madhusudan Goenka in Kolkata, West Bengal with the name of Auro Enterprise. Thereafter, in 1995 Auro Industries Limited was incorporated taking over the trading business and steadily expanded into importing of electrostatic precipitators (ESP) and exporting essential parts for the battery industry. In 2012, Auro Impex & Chemicals Pvt Ltd, established a manufacturing unit in West Bengal. Further, on September 30, 2022, the name of the company was changed to "Auro Impex & Chemicals Limited" on account of conversion of the entity from a Private Limited to Public Limited Company. The company is engaged in air pollution control equipment and fabrication. The entity is run under the able leadership of Mr. Madhusudan Goenka and he is well supported by an experienced and professional team.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Audited
Total Operating Income	73.51	110.08
EBIDTA	2.65	4.47
PAT	0.91	2.05
Total Debt	11.62	19.77
Tangible Net Worth	4.91	6.95
EBDITA Margin (%)	3.60	4.06
PAT Margin (%)	1.23	1.85
Overall Gearing Ratio (x)	3.24	3.48

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

ICRA continues to maintain the rating of Auro Impex & Chemicals Private Limited in the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated November 23, 2022.

CARE Ratings continues to maintain the rating of Auro Impex & Chemicals Private Limited in the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated June 01, 2022.

India Ratings continues to maintain the rating of Auro Impex & Chemicals Private Limited in the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 21, 2023.

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	8.44	IVR BB+/ Stable	-	-	-
2.	Cash Credit	Long Term	15.00	IVR BB+/ Stable	-	-	-

3.	Proposed Cash Credit	Long Term	7.00	IVR BB+/ Stable	-	-	-
4.	Bank Guarantee	Short Term	0.40	IVR A4+		-	-
5.	Letter of Credit	Short Term	4.00	IVR A4+	-	-	-
6.	Proposed Letter of Credit	Short Term	10.16	IVR A4+	-	-	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com the accuracy, adequacy, or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan – 1	-	-	December 2027	2.12	IVR BB+/Stable
Term Loan – 2	-	-	December 2029	3.97	IVR BB+/Stable
GECL	-	-	November 2026	2.35	IVR BB+/Stable
Cash Credit	-	-	-	15.00	IVR BB+/Stable
Proposed Cash Credit	-	-	-	7.00	IVR BB+/Stable
BG	-	-	-	0.40	IVR A4+
LC	-	-	-	4.00	IVR A4+
Proposed Letter of Credit	-	-	-	10.16	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-AuroImpex-apr23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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