

## Press Release

### Namo Alloys Private Limited

January 08, 2020



#### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 43.00 Cr.
<b>Long Term Rating</b>	ACUITE BB/ Outlook: Stable (Downgraded from ACUITE BB+)

\* Refer Annexure for details

#### Rating Rationale

Acuité has downgraded its long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 43.00 crore bank facilities of Namo Alloys Private Limited. The outlook is '**Stable**'.

#### Key Reason for Downgrade

The rating downgrade is driven by the substantial decline in business profile of the company marked by decline in operating income and operating profits leading to deterioration in its financial risk profile. The Company reported operating income to Rs.421.18 crore in FY2019 from Rs.459.58 crore in FY2018 which is a drop of 8.36 per cent in FY2019 over FY2018. Further, in the current financial year the company have only achieved a revenue of Rs.135.19 crore for 6MFY2020. The decline in operating income is on account of slowdown in automobile sector. The Company reported an overall decline in operating margins from 3.53 percent in FY2017 to 2.77 percent in FY2019. The decline in operating income coupled with decline in the profitability has led to deterioration in financial risk profile of the company. The debt protection indicators have deteriorated marked by ICR and Debt/EBITDA which stood at 1.48 and 4.96 respectively for FY2019 as against 1.82 and 4.29 times respectively in FY2017. Any further decline in revenue and profitability levels leading to significant deterioration of financial risk profile will be a key rating sensitivity factor.

New Delhi based Namo Alloys Private Limited (NAPL) was incorporated in 1996. The company is engaged in the business of manufacturing of Aluminum Zinc Alloy ingots & pressured die casting equipment's. The company has manufacturing units, located in Prithla, Haryana with a capacity of 2000 Metric Tonnes per month.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of NAPL to arrive at this rating.

#### Key Rating Drivers

##### Strengths

###### • **Established track record along with Reputed Clientele**

Namo Alloys Private Limited (NAPL) was incorporated in year 1996 by Mr. Naresh Kumar Jain. The directors Mr. Naresh Jain and Mr. Neeraj Jain have around two decades of experience in manufacturing and trading of ingots. NAPL caters to reputed clientele base in Indian domestic market. The major customers of the company include Maruti Suzuki India Limited, Honda Motorcycle and Scooter India, and Minda Industries Limited among other players. The company has a long standing relations with customer base of more than a decade.

Acuité believes, the established presence and experienced management will continue to benefit the company in maintaining long standing relations with its reputed clientele over medium term.

###### • **Comfortable working capital cycle**

NAPL is having comfortable working capital operations marked by Gross Current Asset (GCA) of 72 days in FY2019 compared to 71 days in FY2018. The GCA days are mainly dominated by inventory days of 32 in FY2019 compared to 23 days in FY2018. The average cash credit utilization at ~84 per cent for the past nine months ending 31<sup>st</sup> October, 2019. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

## Weaknesses

### • Moderate financial risk profile

NAPL has a moderate financial risk profile marked by net worth of Rs. 23.26 crore as on 31 March, 2019 compared to Rs. 27.96 crore as on 31 March, 2017. Net worth includes unsecured loans of Rs.7.50 crore as on 31 March 2019 which is considered as quasi equity. The gearing stood to 2.90 times as on 31 March, 2019 as against 2.06 times as on 31 March, 2019. The total debt of Rs. 67.36 crore as on 31 March 2019 comprises of long term debt of Rs.2.58 crore, short term debt of Rs. 47.51 crore and unsecured loan of Rs.17.27 crore which also includes Rs.15.15 crore\* which is under the litigation process with the bank. The interest coverage ratio stood at 1.48 times in FY2019 as against 1.82 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.19 times as on 31st March, 2019 as against 19.66 times in 31 March, 2018 and 2.43 times in 31 March, 2017. Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

### • Decline in operating income and margins

The business profile of the company has deteriorated in FY2019 and FY2020 marked by significant decline in operating revenues and profitability of the company. The operating income has declined to 421.18 in FY2019 from Rs.459.58 crore in FY2018 while in the current financial year 2020 the company have achieved revenues of Rs.135.19 crore for 6MFY2020. The Company reported an overall decline in operating margins to 2.77 per cent in FY2019 from 3.53 percent in FY2017. Any further deterioration in the business profile of the company will impinge a negative bias towards the company.

### • Exposure to volatility in raw material prices and foreign currency fluctuation risk

The raw material forms the major component of the overall cost of the company. The basic raw material for production of Aluminum Ingot is aluminum scrap and Zinc metal, prices of which are volatile in nature which results in price fluctuation risk on the margins of the company. NAPL imports major amount of its raw material from the European and Middle East countries making it exposed to the Foreign Currency fluctuation risk. To protect from this risk, the company hedges its imports by means of forward contracts.

## Rating Sensitivity Factor

- Significant decline in revenue due to slowdown in the automobile industry.

## Material Covenants

None

## Liquidity position: Adequate

The Company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. NAPL generated cash accruals of Rs.4.36 crore in FY2019 as against no significant debt maturity obligation for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.4.00 crore to Rs.5.50 crore during FY2020-22 against as against CPLTD of Rs.0.70 crore each year for the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 72 days in FY2019 as against 71 for FY2018. Company maintains unencumbered cash and bank balances of Rs.0.41 crore as on 31 March 2019. The current ratio stands at 1.56 times as on 31 March 2019. The liquidity position of the company remains comfortable with average cash credit limit utilization at around ~84 percent for the last nine months ended 31<sup>st</sup> October, 2019.

## Outlook: Negative

Acuité believes NAPL will maintain a 'Stable' business risk profile over the medium term as the company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues, profit margins, or in case of deterioration in financial risk profile and liquidity position.

## About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	421.18	459.58
PAT	Rs. Cr.	2.28	(23.19)
PAT Margin	(%)	0.54	(5.05)

Total Debt/Tangible Net Worth	Times	2.90	15.29
PBDIT/Interest	Times	1.48	(1.31)

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

None

#### **Any other information**

During FY2018, some employees of the company in collusion with bank personnel fraudulently siphoned off Rs.44.16 crore from the company. The company lodged a FIR against the accused person and the matter is in court.

\*Debt amounted to Rs.15.15 crore is under litigation which means the amount is under a lawsuit/complaint against the banks. The same amount is yet to receive the confirmation from the bank.

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

#### **Note on complexity levels of the rated instrument**

<https://www.acuite.in/criteria-complexity-levels.htm>

#### **Rating History (Up to last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
October 04, 2019	Cash Credit	Long term	43.00	ACUITE BB+ (Indicative)
July 23, 2018	Cash Credit	Long term	43.00	ACUITE BBB-/Stable (Reaffirmed)
July 12, 2017	Cash Credit	Long term	43.00	ACUITE BBB-/Stable (Reaffirmed)
May 31, 2017	Cash Credit	Long term	43.00	ACUITE BBB- (Indicative)

#### **\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BB/ Stable (Downgraded from ACUITE BB+)

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#### **About Acuite Ratings & Research:**

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