

Press Release

Galaxy Aluminium LLP

October 01, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 13.10 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 13.10 crore bank facilities of GALAXY ALUMINIUM LLP (GAL). The outlook is '**Stable**'.

The upgrade in the rating is on account of consistent growth in operating income, while maintaining profitability along with efficient working capital operations. The revenues of the group are growing with CAGR of 11 per cent for the period FY2017-FY2019 and increased to Rs. 235.62 crore in FY2019 as against Rs. 206.42 crore in FY2018. Further, the profitability is maintained at ~6 per cent as reflected in operating margins of 6.16 per cent in FY2019 as against 6.01 per cent in the previous year and net margins have shown improvement over the years and stood at 2.36 per cent in FY2019 as against 1.93 per cent in FY2018. In addition to growing revenues and profitability, the group is able to efficiently manage its working capital operations marked by Gross Current Asset (GCA) days of 85 days for FY2019. The upgrade also reflects group's healthy financial risk profile marked by moderate net worth, low gearing and healthy debt protection metrics.

Maharashtra-based, Galaxy Aluminium LLP (GAL) was established in 2011 as a limited liability partnership firm. The firm is promoted by Mr. Subhash Vrajlal Vhora and Mr. Sameer Subhash Vhora along with their family. The firm is engaged in manufacturing of Aluminum and Aluminum alloys rods.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Galaxy Aluminium LLP (GAL) and Galaxy Transmissions Private Limited (GTPL) referred to as the 'Galaxy Group' (GG) to arrive at the rating. The consolidation is in view of the common promoters and operational linkages within the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

The group was founded in 1995 by Mr. Subhash V. Vhora; thus, the group has an operational track record of over two decades in the aluminium products industry. The promoter of the group, Mr. Subhash V. Vhora, has an experience of over two decades in the aforementioned line of business. The long track record of operations and experience of the management have helped the group develop healthy relationships with its customers and suppliers. Acuite believes that GG will sustain its existing business profile on the back of established track record of operations and experienced management.

- Healthy financial risk profile**

The group's financial risk profile is moderate marked by a healthy network, low gearing and above average debt protection metrics. The group's network stood at around Rs. 36.20 crore as on March 31, 2019 as against Rs. 32.56 crore in the previous year. The gearing (debt-equity) levels stood low at 0.78 times as on 31 March, 2019 as against 1.33 times as on 31 March, 2018. The total debt of Rs. 28.25

crore as on 31 March, 2019 comprises of Rs. 24.64 crore of working capital borrowings, Rs. 0.28 crore of long term debt and Rs. 3.33 crore of unsecured loans. The coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) of 2.80 times for FY2019 as against 2.21 times for FY2018. Further, Debt to EBITDA improved to 1.89 times for FY2019 as against 3.37 times for FY2018. This is mainly due to less reliance on working capital borrowings as on 31 March, 2019 as compared to previous year. Total outside liabilities to Tangible Net worth (TOL/TNW) has improved to 1.37 times as on 31 March, 2019 as against 2.12 times as on 31 March, 2018. Acuite believes that the financial risk profile of the group is expected to remain healthy backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

• **Efficiently managed working capital operations**

The group has efficiently managed its working capital operations marked by Gross Current Assets (GCA) of 85 days for FY2019 as against 135 days for FY2018. The debtors improved to 47 days for FY2019 as against 74 days for FY2018. The inventory level stood low at 28 days for FY2019 as against 49 days for FY2018. Acuite believes that the group's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Weaknesses

• **Counter party risk**

On standalone basis, GTPL is exposed to counter party risk as around 28 per cent of sales is towards a single customer- Power Grid Corporation of India Limited (PGCIL). Acuite believes that any deterioration in credit profile of the counter party might impinge the liquidity of the group.

• **Highly competitive and fragmented industry**

The Galaxy Group operates in a highly fragmented and competitive industry with limited entry barriers, wherein the presence of large number of players in the unorganised sector limits its bargaining power with customers.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs.250.00-275.00 crore), while maintaining profitability margin of around 6-7 per cent over the medium term.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

Letter of pegging to be obtained for the unsecured loans.

Liquidity Position: Adequate

The group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 6.60 crore for FY2019, while its maturing debt obligations were Rs. 0.12 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs. 7.00 crore to Rs. 10.00 crore during 2020-22 against no expected repayment obligation. The group's working capital operations are moderate marked by gross current asset (GCA) days of 85 days for FY2019. The group maintains unencumbered cash and bank balances of Rs. 0.10 crore as on 31 March 2019. The current ratio stood at 1.30 times as on 31 March, 2019. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that GG will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook maybe revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Group

Galaxy group (GG) was founded in 1995 and comprises of two companies namely Galaxy Aluminium LLP (GAL) and Galaxy Transmission Private Limited (GTPL). GTPL (erstwhile Galaxy cables) was established in 1995, and later in 2006 changed the constitution into private limited company and GAL was established in 2011. The group was promoted by Mr. Subhash Vrajlal Vhora and Mr. Sameer Subhash Vhora along with their family. GTPL is engaged in the manufacturing of aluminium conductors used in power transmission and distribution at Sangli (Maharashtra) unit and Nagpur unit. The total manufacturing capacity is ~65,000 MTPA for conductors with ~65 per cent utilisation. The company supplies products to Power Grid Corporation Indian Ltd, State Electricity Boards and private utilities. GAL meets most of the aluminium alloy rod requirement of GTPL with manufacturing capacity of 25,000 MTPA for aluminium and aluminium alloy rods with ~60 per cent utilisation.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	235.62	206.42	191.67
EBITDA	Rs. Cr.	14.51	12.40	12.42
PAT	Rs. Cr.	5.55	3.99	2.76
EBITDA Margin	(%)	6.16	6.01	6.48
PAT Margin	(%)	2.36	1.93	1.44
ROCE	(%)	19.22	17.82	20.15
Total Debt/Tangible Net Worth	Times	0.78	1.33	0.90
PBDIT/Interest	Times	2.80	2.21	1.66
Total Debt/PBDIT	Times	1.89	3.37	1.92
Gross Current Assets (Days)	Days	85	135	78

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Sep-2018	Proposed Bank Facility	Long Term	1.60	ACUITE BB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BB+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Reaffirmed)
29-Jun-2017	Term Loan	Long Term	1.60	ACUITE BB+ / Stable (Upgraded from ACUITE BB/ Stable)
	Cash Credit	Long Term	1.50	ACUITE BB+ / Stable (Upgraded from ACUITE BB/ Stable)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Reaffirmed)
08-Mar-2016	Term Loan	Long Term	1.60	ACUITE BB / Stable (Assigned)
	Cash Credit	Long Term	1.50	ACUITE BB / Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/ Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB- / Stable (Upgraded from ACUITE BB+/ Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Upgraded from ACUITE A4+)

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