

Press Release

Galaxy Aluminium LLP

March 09, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.13.10 Cr.
Long Term Rating	ACUITE BBB-/ Outlook:Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.13.10 Cr bank facilities of Galaxy Aluminium LLP (GAL). The outlook is '**Stable**'.

About the Firm

Galaxy Aluminium LLP is a Sangli, Maharashtra based limited liability partnership firm. The firm was established in the year 2011 and is promoted by Mr.Subhash Vrajlal Vhora and Mr.Sameer Subhash Vhora, along with their family members. The firm is engaged in manufacturing aluminum and aluminum alloy rods. The rod manufactured by the firm is used as a backward integration for manufacturing aluminum conductors under its group company-Galaxy Transmission Private Limited (GTPL). GAL meets most of the aluminum alloy rod requirement for GTPL.

About the Group

Galaxy Group is a Maharashtra based group founded in the year 1995. The group is promoted by the Vhora family led by Mr. Subhash Vrajlal Vhora and Mr. Sameer Subhash Vhora. The group comprises of two companies, namely Galaxy Aluminium LLP (GAL) and Galaxy Transmission Private Limited (GTPL). GTPL (erstwhile Galaxy cables) was established in the year 1995 and later in the year 2006, the constitution was changed to a private limited company. The group is engaged in manufacturing aluminum and aluminum alloy rods and conductors. GAL is engaged in manufacturing aluminum and aluminum alloy rods whereas GTPL is engaged in manufacturing aluminum conductors that finds its use in power transmission and distribution industry. The manufacturing units are located at Sangli and Nagpur unit. The total manufacturing capacity is ~65,000 MTPA for conductors with ~65 per cent utilization. The group supplies products to Power Grid Corporation of India Limited, State Electricity Boards and other Private Utilities. GAL meets most of the aluminum alloy rod requirement of GTPL with manufacturing capacity of 25,000 MTPA for aluminum and aluminum alloy rods with ~60 per cent utilization.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Galaxy Aluminium LLP and Galaxy Transmission Private Limited, together referred to as 'Galaxy Group (GG)' to arrive at the rating. The consolidation is in view of the common promoters, significant operational and financial synergies within the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Galaxy Group was incorporated in the year 1995. The group has an established track record of more than two decade in the aluminum products industry. The group is promoted by Vhora family led by Mr.Subhash Vrajlal Vhora and Mr. Sameer Subhash Vhora. The promoters have an experience of more

than two decades in the aforementioned industry. The extensive experience of the promoters and established track record of operation has helped the group to maintain healthy relationship with its customers and suppliers.

Acuite expects that the group will continue to benefit from its experienced management and established track record of operation.

• **Healthy Financial Risk Profile**

GG's financial risk profile is healthy marked by moderate net worth, low gearing coupled with moderate debt protection metrics and coverage indicators. The group's net worth stood at Rs.40.66Cr as on March 31, 2020 as against Rs.37.12Cr as on March 31, 2019. The group has followed conservative financial policy in the past. The gearing continues to remain low at 0.63 times as on March 31, 2020 as against 0.76 times as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.40 times as on March 31, 2020 as against 1.32 times as on March 31, 2019. The group, on the other hand, generated cash accruals of Rs.4.20Cr in FY2020 as against Rs.6.61Cr in FY2019. CG's cash accrual over the next three years through FY2023 is estimated to remain in the range of Rs.5.00Cr to Rs.8.00Cr.

The revenue of the group has declined by around 16.20 percent to Rs.197.43Cr in FY2020 from Rs.235.59Cr in FY2019. The decline in the operating income is due to fluctuation in the price of Aluminum along with the deferment of the orders from customers like Power Grid Corporation of India Limited and other State Electricity Boards from December, 2020 onwards in view of outbreak of COVID-19 pandemic. EBITDA has declined to Rs.10.27Cr in FY2020 from Rs.14.48Cr in FY2019. The PAT of the group has declined to Rs.2.88Cr in FY2020 as against Rs.5.55Cr in FY2019. The profitability margin has also declined. The operating margin and the profitability margin stood at 5.20 percent and 1.46 percent in FY2020 as against 6.15 percent and 2.35 percent in FY2019. The decline in the profitability level, coupled with moderate debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.16 times and 2.13 times respectively as against Rs.0.23 times and 2.80 times respectively in FY2019. The debt service coverage ratio stood 1.88 times in FY2020 as against 2.19 times in FY2019. The Debt-EBITDA ratio stands at 2.53times in FY2020.

Acuite believes the financial risk profile of the group will continue to remain healthy on account of its moderate net cash accruals and in the absence of any major debt funded capex in near to medium term.

Weaknesses

• **Working capital operation is intensive in nature**

GG's working capital operation is intensive as it is reflected by its Gross Current Asset (GCA) days of around 127 in FY2020 as against 85 days in FY2019. The working capital cycle has been elongated to 89 days in FY2020 as against 85 days in FY2019. The group has maintained an inventory holding period 39 days as on March 31, 2020 as against 28 days as on March 31, 2019. The increase in the inventory holding period is due to piling up of the stock of the finished product due to supply chain disruption in view of COVID-19 outbreak. The debtor collection period stood at 82 days as on March 31, 2020 as against 47 days as on March 31, 2019. The delays in the payment realization from its customer (mostly from the government entities) has resulted to an accumulated receivables of Rs.42.29Cr as on March 31, 2020 as against Rs.30.47Cr as on March 31, 2019. On the other hand, the group's credit payment period stood at 32 days as on March 31, 2020 as against 14 days as on March 31, 2019. The average bank limit utilization stood low at around 52.98 percent over the last 8 months through November 2020, while its peak utilization was high at around 98.20 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term on account of high debtor collection and inventory holding period.

• Counterparty risk and highly competitive and fragmented industry

Galaxy Group is exposed to counter party risk as more than 20 percent of the sales is towards a single customer, i.e. Power Grid Corporation of India Limited (PGCIL) in the previous years. So the deferment of the orders by PGCIL in view of COVID-19 pandemic has impacted the operating income of the group. Moreover, the group is operating in a highly fragmented and competitive industry with limited entry barriers, wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Acuite believes that any deterioration in the credit profile of the counter party might impinge the liquidity of the group.

Liquidity Position: Adequate

The group has adequate liquidity marked by moderate net cash accruals against its maturing debt obligations. The group generated cash accruals of Rs.4.20Cr in FY2020, while the maturing debt obligation were Rs.0.11Cr for the same period. The cash accrual of the group is estimated to remain around Rs.5.00Cr to Rs.7.50Cr during 2021-23, while its repayment obligation is estimated to be nil during the same period. The group's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 127 days in FY2020 as against 85 days in FY2019. The average bank limit utilization stood low at around 52.98 per cent for eight months ended November, 2020. The group maintains unencumbered cash and bank balances of Rs.0.24Cr as on 31 March 2020. The current ratio of the group stood at 1.42 times as on 31 March 2020 from 1.44 times as on March 31, 2019.

Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals against nil maturing debt obligations.

Rating Sensitivities

- Significant improvement in the scale of operation while maintaining profitability margin of 6-7 percent over the medium term
- Any stretch in the working capital cycle will lead to increase reliance on working capital borrowings and weakening of financial risk profile

Outlook: Stable

Acuite believes that the group will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the group registers higher than expected growth in its revenue while improving its operating margins from its current levels along with healthy financial risk profile and efficient working capital management. Conversely, the outlook may be revised to "Negative", if 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 the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	197.43	235.59
PAT	Rs. Cr.	2.88	5.55
PAT Margin	(%)	1.46	2.35
Total Debt/Tangible Net Worth	Times	0.63	0.76
PBDIT/Interest	Times	2.13	2.80

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

None

Any other information

None

Any Material Covenants

None

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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Oct-2019	Proposed Bank Facility	Long Term	1.60	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Cash Credit	Long Term	1.50	ACUITE BBB-/Stable (Upgraded)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Upgraded)
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)

***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 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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