

Press Release

Industrial Associates (IA)

09 March, 2018

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 15.00 crore
Long Term Rating	SMERA BB/ Stable (Reaffirmed)
Short Term Rating	SMERA A4+ (Reaffirmed)

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.15.00 crore bank facilities of Industrial Associates (IA). The outlook is '**Stable**'.

Industrial Associates (IA) established in 1969, a partnership firm, is engaged in the manufacturing and trading of refractory materials used in lining furnaces, kilns, fireboxes, and fireplaces. The firm primarily deals in firebricks. Its product profile includes fireclay, high-grade alumina, monolithic, and other basic and special purpose refractories. It also trades in insulation material, and designs insulation systems for kilns and ovens. The firm has two manufacturing units in West Bengal with total capacity of 2000 tonnes per month.

IA procures raw materials such as bauxite, high alumina silicate, cement etc. from manufacturers in China and India. Major suppliers include Hindalco, Calderys Refractories, Tata Refractories and others.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

IA was established in 1969 as part of the Industrial Associates Group. The management has over four decades of experience in various industries including refractories, engineering, heavy machinery and capital goods. The day-to-day operations are led by Mr. Vijay Agarwal, Mr. Sushil Agarwal, Mr. Saket agarwal and Mr. Vinay Agarwal.

Diversified and reputed clientele

IA supplies refractories to various industries including refineries, steel, power, cement, defence, etc. It has, over the years, established relations with reputed companies such as Larsen & Toubro Limited, Indian Oil Corporation Limited, National Thermal Power Corporation among others.

Average financial risk profile

The financial risk profile of IA is average marked by net worth of Rs. 9.48 crore as on 31 March, 2017 as compared to Rs. 10.00 crore as on 31 March, 2016. It includes unsecured loans from partners of Rs. 2.73 crore which is subordinated to debt. The gearing (debt equity) ratio stood at 1.78 times in FY2017. The debt profile gets comfort from the fact that IA has no major annual repayments on term loans other than Rs.0.17 crore in FY2017. IA generates sufficient net cash accruals to meet term debt obligations. The

Interest Coverage Ratio stood at 1.46 times and DSCR at 1.37 times in FY2016. Moreover, the liquidity profile of the firm is backed by unsecured loans from promoters as these can be withdrawn and introduced as and when required.

Weaknesses

Modest scale of operations

AI has modest scale of operations evident from the total operating income (TOI) Rs.23.85 crore. The modest scale of operations and low base of net worth restricts the firm's financial flexibility in case of exigency. Further, the firm has booked revenue of around Rs.25.00 crore from April to February, 2018.

Working capital intensive operations

The firm maintains average raw material and finished goods inventory of two months. Thus, it has working capital intensive operations marked by high Gross Current Assets days of 353 days in FY2017. It is mainly on account of high inventory of 224 days and debtors of 111 days in FY2017 that keeps the liquidity position stretched.

Intense market competition

The refractory industry is intensely competitive with several organised and unorganised players and threat from cheaper imports. Further, due to the highly competitive nature of the refractory industry, players have limited pricing flexibility making it difficult to pass on hike in raw material prices to customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Industrial Associates to arrive at the rating.

Outlook: Stable

SMERA believes that IA will maintain a stable outlook in the medium term backed by promoters' extensive experience and established relations with customers and suppliers. The outlook may be revised to 'Positive' if the firm registers more than expected revenues while improving profitability and net cash accruals. However, the outlook may be revised to 'Negative' if the firm fails to achieve the expected revenues or profitability leading to deterioration in the debt protection metrics or if the working capital cycle further elongates.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	23.85	26.75	24.65
EBITDA	Rs. Cr.	3.03	3.16	2.94
PAT	Rs. Cr.	0.11	0.14	0.12
EBITDA Margin	(%)	12.69	11.83	11.92
PAT Margin	(%)	0.45	0.52	0.51
ROCE	(%)	8.45	8.65	7.88
Total Debt/Tangible Net Worth	Times	1.78	1.63	1.31

PBDIT/Interest	Times	1.46	1.50	1.50
Total Debt/PBDIT	Times	5.58	5.16	5.30
Gross Current Assets (Days)	Days	353	315	375

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

None

Any other information

None

Applicable Criteria

Default Recognition - <https://www.smera.in/criteria-default.htm>

Entity in Manufacturing Sector - <https://www.smera.in/criteria-manufacturing.htm>

Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Trading entities-<https://www.smera.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24 Feb, 2017	Cash Credit	Long Term	11.75	SMERA BB/Stable (Assigned)
	Bank Guarantee	Long Term	3.25	SMERA A4+ (Assigned)

*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	11.75	SMERA BB / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	SMERA A4+

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ABOUT SMERA

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