

Press Release

Industrial Associates

May 27, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 15.00 crore bank facilities of INDUSTRIAL ASSOCIATES. The outlook is '**Stable**'.

The reaffirmation of the rating reflects long operational track record of the promoters in the industry for nearly five decades, reputed clientele, stable operating margins and comfortable financial risk profile; however, partly constrained by modest scale of revenues and working capital intensive operations.

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

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the IA's to arrive at this rating.

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 of the group has over four decades of experience in various industries including refractories, engineering, heavy machinery and capital goods, real estate and solar. The day to day operations of IA are managed by Mr. Vijay Agarwal, Mr. Sushil Agarwal, Mr. Saket Agarwal and Mr. Vinay Agarwal. IA supplies refractories to various industries including refineries, steel, power, cement, defence, etc. It has, over the years, established relationship with reputed names like Larsen & Toubro Limited, Indian Oil Corporation Limited, National Thermal Power Corporation among others. Acuité believes that the firm will benefit from the experience of the management over the medium term.

- **Comfortable financial risk profile**

Financial risk profile of the firm is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing (debt-to-equity) stood at 0.80 times as on 31 March, 2018 as against 0.77 times as on 31 March, 2017. TOL/TNW stood comfortable at 1.23 times as on 31 March, 2018 as against 1.10 times as on 31 March, 2017. Net worth is modest at Rs.16.35 crore as on 31 March, 2018 (Rs.10.26 crore treated as quasi equity) as against Rs.14.90 crore as on 31 March, 2017. Of the total debt of Rs.13.15 crore as on 31 March, 2018, long term debt stood at Rs.0.37 crore, unsecured loans of Rs.0.41 crore and short term debt stood at Rs.12.37 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 1.50 times and 0.07 times in FY2018. The firm reported net cash accruals (NCA) of Rs.0.91 crore in FY2018. Cash accruals are expected in the range of Rs.1.0 - 1.5 crore, against repayment obligations of about Rs.0.10-0.15 crore. Acuité believes that with modest

cash accruals, the financial risk profile continues to be at similar levels over the medium term.

Weaknesses

• Working Capital Intensive Operations

Operations of the firm are working capital intensive marked by high gross current assets (GCA) of 444 days in FY2018 as against 353 days in FY2017. This is mainly on account of high debtor days at 147 days in FY2018 and 111 days in FY2017. The same is due to slow realization from the customers. Inventory days stood high at 286 days in FY2018 as against 224 days in FY2017. The firm procures raw materials during February to April as the mining will be stopped during the rainy seasons. Working capital limits are fully utilized for the last six months through March 2019. Acuité believes that the operations are expected to be working capital intensive over the medium term.

• Modest and declining revenues

Revenues of the firm are modest and declining over the last three years through FY2018. Revenues declined to Rs.22.80 crore in FY2018 from Rs.23.85 crore in FY2017 and Rs.26.75 crore in FY2016 owing to decline in job work revenue and orders. Further, the firm reported Rs.23.03 crore for FY2019 (Provisional). However, its profitability margins are stable at about 12 per cent. Acuité believes that the ability of the firm to increase the scale of operations and profitability would be the key rating sensitivity factor.

• Highly competitive industry

The refractory industry is intensely competitive due to presence of a number of unorganized players and threat from cheaper imports. Further, due to highly competitive nature of the refractory industry, players have limited pricing flexibility and it is difficult to pass on any hike in raw material prices to customers due to fierce competition. Further the contracts are awarded through competitive bidding or tender process leading to pressure on the volume of the work or winning number of projects, pricing and profitability of the firm.

Liquidity position

Liquidity of IA is moderate marked by moderate cash accruals against minimal repayment obligations. It has reported cash accruals of Rs.0.91 crore in FY2018. Its expected cash accruals are in the range of Rs.1-1.50 crore against minimal repayment obligations of Rs.0.10-0.15 crore. Operations are working capital intensive with high GCA days of 444 days in FY2018. Current ratio is moderate at 1.50 times in FY2018. Acuité believes that the liquidity profile continues to be moderate in the medium term.

Outlook: Stable

Acuité believes that IA will maintain a stable outlook in the medium term backed by its promoter's extensive experience and established relations with customers. The outlook may be revised to Positive if the firm registers more than expected revenues while maintaining stable profitability. Conversely, the outlook may be revised to Negative if any stretch in working capital cycle leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.80	23.85	26.75
EBITDA	Rs. Cr.	2.86	3.03	3.16
PAT	Rs. Cr.	0.11	0.11	0.14
EBITDA Margin	(%)	12.55	12.69	11.83
PAT Margin	(%)	0.46	0.45	0.52
ROCE	(%)	7.38	8.45	17.69
Total Debt/Tangible Net Worth	Times	0.80	0.77	0.75
PBDIT/Interest	Times	1.50	1.46	1.50
Total Debt/PBDIT	Times	4.60	3.78	3.57
Gross Current Assets (Days)	Days	444	353	315

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
09-Mar-2018	Cash Credit	Long Term	INR 11.75	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	INR 3.25	ACUITE A4+ (Reaffirmed)
24-Feb-2017	Cash Credit	Long Term	INR 11.75	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	INR 3.25	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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.75	ACUITE BB / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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