

Press Release
Industrial Associates

November 13, 2020

Rating Reaffirmed



| | |
|-------------------------------------|-----------------------------------|
| Total Bank Facilities Rated* | Rs. 15.00 Cr. |
| Long Term Rating | ACUITE BB-/Stable (Reaffirmed) |
| Short Term Rating | ACUITE A4 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short term of **ACUITE A4** (read as **ACUITE A4**) on the Rs. 15.00 crore bank facilities of Industrial Associates (IA). The outlook is '**Stable**'.

The rating continues to reflect the established track record of operations, modest scale along with moderate financial risk profile. Revenue of the firm stood at Rs 26.94 cr in FY20(Provisional) as against Rs 22.87 cr in FY19. Interest coverage of the firm stood at 1.66 times in FY20(Provisional) as compared to 1.60 times in FY19. Debt to EBITDA stood at 4.66 times in FY20 (Provisional) as against 4.81times in FY19. Acuite believes the scale of operation and financial risk profile will continue to remain at a similar level in FY21 backed by small order book and high debt level.

Industrial Associates (IA) was established in 1969 as a partnership firm which is engaged in manufacturing and trading in refractory materials used in lining furnaces, kilns, fireboxes, and fireplaces. The firm has two manufacturing units in West Bengal with total capacities of 2000 tonnes per month.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of IA to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operation

The firm has a long operational track record spanning over five decades. The day to day operations of IA are managed by its partner Mr. Vijay Agarwal. IA supplies refractories to various industries including refineries, steel, power, cement etc. Firm has established relationship with reputed customers such as TATA Limited, SAIL, Indian Oil Corporation Limited (IOCL), National Thermal Power Corporation (NTPC) among others. Acuite believes that the firm will benefit from the experience of management over the medium term.

Moderate financial risk profile

The firm has moderate financial risk profile marked by low net worth, comfortable gearing ratio and modest coverage indicator. Net worth of the firm stood at 15.94 crore as on 31st March'20(Provisional) as against Rs 17.13 crore in the previous year. The gearing of the firm stood at 0.79 times as on 31st March 2020(Provisional) as against 0.74 times as on 31st March, 2019. Debt level includes Rs 11.61 crore of short term debt, Rs 0.83 crore of Long term debt. Debt protection metrics stood at a moderate level as indicated from interest coverage of 1.66 times in FY20 as compared to 1.60 times in the previous year. TOL/TNW stood at 1.30 times in FY20(Provisional). NCA/TD stood at 0.09 times in FY20(Provisional). Acuite believes financial risk profile is likely to remain at a modest level in medium term because of a high debt level.

Weaknesses

Modest scale of operation

The firm has modest scale of operation as revenue stood at Rs 26.94 crore in FY20 (Provisional) as compared to Rs 22.87 crore in FY19. The firm has a pending order book stood at Rs 18.26 crore lending moderate revenue visibility over the medium term. The ability of the firm to ramp up its scale of operation will be a key monitorable.

Working capital intensive operations

IA has working capital intensive nature of operations marked by high GCA of 394 days in FY20(Provisional) as against 440 days in FY2019. The high GCA days was mainly dominated by 236 days of inventory in FY20 (Provisional) as against 315 days in FY2019. The high inventory levels are mainly due to accumulation of finished goods at the year end. However, the debtor days stood modest at 77 days in FY20(Provisional) as against 111 days in FY19. Acuite believes the company will continue to witness high working capital requirement due to high inventory days.

Liquidity profile: Stretched

The firm has stretched liquidity profile as indicated from high utilization of working capital limit, which stood at 100 percent during the last 6 months ended September 2020. Moreover, the firm has high GCA days of 394 days in FY20 due to high inventory days. Current ratio stood at 1.48 times in FY20 as against 1.62 times in FY19. However, the firm had availed moratorium till August, 2020 under COVID-19 scheme. Cash & Balance stood at Rs0.01 crore as on 31 March 2020. Net cash accrual stood at Rs 1.07 crore in FY20 (Provisional) as against current maturity of Rs 0.15 crore. Acuite believes liquidity profile will continue to remain stretched in the medium term due to high working capital requirement.

Rating sensitivities

- Scaling up of operations
- Improvement in Liquidity profile.

Material covenant

None

Outlook: Stable

Acuite 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 healthy revenue growth along with improvement in the liquidity profile. Conversely, the outlook may be revised to Negative if any stretch in working capital cycle leading to the deterioration of financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 26.94 | 22.87 |
| PAT | Rs. Cr. | 0.25 | 0.11 |
| PAT Margin | (%) | 0.92 | 0.50 |
| Total Debt/Tangible Net Worth | Times | 0.79 | 0.74 |
| PBDIT/Interest | Times | 1.66 | 1.60 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure entities - <https://www.acuite.in/view-rating-criteria-51.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|------|---------------------------------|------|-----------------|-----------------|
|------|---------------------------------|------|-----------------|-----------------|

| | | | | |
|----------------|----------------|------------|-------|---|
| 14 August 2020 | Cash credit | Long Term | 11.75 | ACUITE BB- Downgraded; Issuer not co-operating* |
| | Bank Guarantee | Short Term | 3.25 | ACUITE A4 Downgraded; Issuer not co-operating* |
| 27 May 2019 | Cash credit | Long Term | 11.75 | ACUITE BB / Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 3.25 | ACUITE A4+ (Reaffirmed) |
| 09 March 2018 | Cash credit | Long Term | 11.75 | ACUITE BB / Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 3.25 | 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 |
|------------------------|------------------|----------------|----------------|-----------------------------|--------------------------------|
| Cash credit | Not Applicable | Not Applicable | Not Applicable | 11.75 | ACUITE BB-/Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 3.25 | ACUITE A4 (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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