

Press Release
Industrial Associates

May 05, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.75	ACUITE BB Stable Upgraded	-
Bank Loan Ratings	3.25	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.15.00 Cr bank facilities of Industrial Associates (IA). The outlook remains '**Stable**'.

The rating upgrade on IA is driven by the improving business risk profile of the company marked by increase in operating income. The rating also factors the long standing operations, experienced management and the above average financial risk profile of the company. These strengths are, however, offset by the working capital intensive nature of operations and the competitive industry.

About the Company

Established in 1969, Industrial Associates (IA) is a partnership firm headed by the partners, Mr. Vijay Kumar Agarwal, Mr. Sushil Kumar Agarwal, Mr. Saket Agarwal and Mr. Vinay Agarwal. It is engaged in manufacturing and trading of refractory materials used in lining furnaces, kilns, fireboxes, and fireplaces. The firm's manufacturing unit is located in West Bengal with a capacity of 21 600 MT per annum.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of Industrial Associates (IA).

Key Rating Drivers

Strengths

- Improving business risk profile coupled with established track record of operations and experienced management

IA has a long operational track record spanning over five decades. Moreover, the partners of the firm, Mr. Vijay Kumar Agarwal and Mr. Sushil Kumar Agarwal have been in the industry

for over five decades and the other partners, Mr. Saket Agarwal and Mr. Vinay Agarwal have been in the industry for more than one decade. The long standing operations and extensive experience has aided IA in establishing healthy relationship with reputed customers such as TATA Steel Limited, Hindalco Industries Limited, Indian Oil Corporation Limited (IOCL), among others. For FY2022, the firm has achieved revenues of Rs.26.94 Cr (provisional). Moreover, for FY2021 the revenue generation was Rs.15.85 Cr as compared to revenues of Rs.26.88 Cr in FY2020. The improvement in the top line of FY2022 is due to the increase in the monthly sales volume as well as capacity utilization in that year. Acuité believes that going forward, the long track operations and experienced management will benefit the scale of operations of the firm over the medium term.

- **Above average financial risk profile**

The above average financial risk profile of the firm is marked by modest net worth along with comfortable gearing and debt protection metrics. The tangible net worth of the firm slightly reduced to Rs.15.66 Cr as on March 31, 2021 from Rs.16.13 Cr as on March 31, 2020 due to reduction in the partners' capital account. Acuité has considered unsecured loans of Rs.8.63 Cr as on March 31, 2021, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the firm stood comfortable at 0.92 times as on March 31, 2021 against 0.79 times as on March 31, 2020, whereas, Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at a moderate level of 1.17 times as on March 31, 2021 as against 1.14 times as on March 31, 2020. The debt protection metrics is marked by Interest Coverage Ratio at 1.59 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.48 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.06 times as on March 31, 2021. Acuité believes that going forward the financial risk profile will remain above average over the medium term, in the absence of any major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the firm is marked by Gross Current Assets (GCA) of 571 days on 31st March 2021 as compared to 368 days in 31st March 2020. The high GCA days is on account of high inventory levels during the same period. The inventory holding stood at 429 days in 31st March 2021 as compared to 237 days as on 31st March 2020. The reason for such inventory holding is the maintenance of minimum stocks of almost all the products in order to meet the customer demand instantly. However, the debtor period stood moderate at 138 days in 31st March 2021 as compared to 105 days in 31st March 2020. Acuité believes that the working capital operations of the group will remain at same level as evident from extended collection mechanism and high inventory levels over the medium term.

- **Fluctuating profitability margins**

The operating margin of IA increased to 15.84 per cent in FY2021 as compared to 9.88 per cent in FY2020. The PAT margin rose to 0.52 per cent for FY2021 as compared to 0.44 per cent in FY20. Further, for FY2022, the firm achieved operating margin of 9.09 per cent (provisional) and PAT margin of 0.60 per cent (provisional). The ROCE levels stood at a moderate level of about 5.89 per cent in FY2021 as against 6.62 per cent in FY2020. The decline in operating margin is due to sharp rise in the raw material cost. Acuité believes that going forward, the profitability margins of the firm will be a key area monitorable.

- **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.

Rating Sensitivities

- Improvement in the scale of operations while improving profitability margins
- Elongation in working capital cycle
- Sustenance in capital structure

Material covenants

None

Liquidity Position: Adequate

The firm's liquidity is adequate marked by steady net cash accruals of Rs.0.89 Cr as on March 31, 2021 as against long term debt repayment of Rs.0.08 Cr over the same period. The fund based limit remains utilized at 67 per cent over the nine months ended December, 2021. The firm has not availed loan moratorium. The cash and bank balances of the firm stood at Rs.0.03 Cr as on March 31, 2021. The current ratio stood comfortable at 1.58 times as on March 31, 2021 as compared to 1.59 times as on March 31, 2020. The working capital management of the company is intensive marked by Gross Current Assets (GCA) of 571 days in 31st March 2021 as compared to 368 days in 31st March 2020. Acuité believes that going forward the firm will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on IA will remain 'Stable' over the medium term on account of the experienced management and steady business risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	15.85	26.88
PAT	Rs. Cr.	0.08	0.12
PAT Margin	(%)	0.52	0.44
Total Debt/Tangible Net Worth	Times	0.92	0.79
PBDIT/Interest	Times	1.59	1.56

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

CRISIL, vide its press release dated May 25, 2021 had denoted the rating of Industrial Associates as 'CRISIL B/Stable/A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Nov 2020	Bank Guarantee	Short Term	3.25	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	11.75	ACUITE BB- Stable (Reaffirmed)
14 Aug 2020	Bank Guarantee	Short Term	3.25	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	11.75	ACUITE BB- (Downgraded and Issuer not co-operating*)
27 May 2019	Bank Guarantee	Short Term	3.25	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	11.75	ACUITE BB Stable (Reaffirmed)
09 Mar 2018	Bank Guarantee	Short Term	3.25	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	11.75	ACUITE BB Stable (Reaffirmed)
24 Feb 2017	Cash Credit	Long Term	11.75	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	3.25	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A4+ Upgraded (from ACUITE A4)
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.75	ACUITE BB Stable Upgraded (from ACUITE BB-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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