

Press Release

Electine Arn Alloys Private Limited

February 06, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs.9.75 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from **ACUITE B** (**read as ACUITE B**) to the Rs. 9.75 crore bank facilities of Electine Arn Alloys Private Limited (EAPL). The outlook is '**Stable**'.

The rating upgrade is in view of stabilisation in operations along with improvement in financial risk profile and profitability margins of the company. Acuité believes going ahead the company will sustain the growth in revenues and profitability margins over the medium term.

Incorporated in 2014, EAPL is a Karnataka-based company promoted by Mr. M. V. Hanumanthaiah, Mr. H Lokesh and Mr. Syed Naseer. The company is engaged in manufacturing of lead alloys and lead products from old discarded batteries. The company started its operations from August 2017 and its manufacturing unit is located at Kolar district (Karnataka) with installed capacity of 1000 MTPD.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of EAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoter, Mr. H Lokesh has more than 8 years of experience in the lead industry. The experience of the management has helped the company in generating relationship with various customers and suppliers. The company supplies majorly to Chloride Metals Limited (100 percent subsidiary of Excide Batteries) along with other customer profile such as Southern Batteries, Sandeep Lead Alloys and Anviro Green Metals, among others.

Acuité believes that the company will continue to benefit from its experienced management over near to medium term.

- **Improvement in the scale of operations and profitability margins**

EAPL has moderate scale of operations marked by operating income of Rs.22.27 crore for FY2018. The company started its operations from August 2017. However, the company has booked revenue of Rs.30.00 crore for the period April to December, 2018 (Provisional). Despite one year of operations, the company managed to pull out profits for the first year. The company's operating margins stood at 10.22 percent for FY2018 and Profit after Tax (PAT) margin of 2.55 percent for FY2018.

Acuité believes that the company's ability to register growth in revenue while maintaining adequate profitability will be a key rating sensitivity.

Weaknesses

- **Average financial risk profile**

The financial risk profile is average marked by low tangible net worth of Rs.3.19 crore as on 31 March 2018. The net worth includes unsecured loan of Rs.1.16 crore as on 31 March 2018 from promoters which is considered as quasi equity as the same is subordinated to bank debt. The gearing stood at 3.20 times on 31 March, 2018. The total debt of Rs.10.21 crore as on 31 March 2018 includes term loan from bank of Rs.4.00 crore, working capital borrowing of Rs.5.84 crore and unsecured loans of Rs.0.37 crore. Interest Coverage Ratio (ICR) stood at 3.08 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood high at 3.65 times as on 31 March, 2018.

Going forward, Acuité expects the company to improve its financial risk profile in near to medium term in the absence of major debt funded capex plan.

- **Exposed to fluctuations in raw material prices**

The major raw material of the company is lead. The prices of the same are fluctuating in nature; therefore, the operating profit margins of the company are susceptible to raw material price fluctuation.

Liquidity Position:

EAPL has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.28 crore for FY2018, while its maturing debt obligations were of Rs.0.04 crore over the same period. The cash accruals of the company are estimated to remain around Rs.2.00 – 4.00 crore during 2019-21, while its repayment obligation is estimated to be around Rs.0.36-0.72 crore every year. The company operates in a moderate working capital nature of operations marked by gross current asset (GCA) days of 89 in FY 2018. Further, the cash credit limit of the company is fully utilized for last six months ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.09 crore as on March 31, 2018. The current ratio of the company stood at 1.07 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the near to medium term on account of healthy cash accrual and low debt repayments over the period.

Outlook: Stable

Acuité believes that EAPL's outlook will remain 'Stable' and the company will benefit over the medium term from its experienced management and improving profitability margins. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while maintaining working capital cycle and profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements further deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.27	NA	NA
EBITDA	Rs. Cr.	2.28	NA	NA
PAT	Rs. Cr.	0.57	NA	NA
EBITDA Margin	(%)	10.22	NA	NA
PAT Margin	(%)	2.55	NA	NA
ROCE	(%)	26.46	NA	NA
Total Debt/Tangible Net Worth	Times	3.20	NA	NA
PBDIT/Interest	Times	3.08	NA	NA
Total Debt/PBDIT	Times	2.29	NA	NA
Gross Current Assets (Days)	Days	89	NA	NA

Note: The operations started in FY2018

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>
- 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
16-Oct-2018	Term Loan	Long Term	3.75	ACUITE B (Indicative)
	Cash Credit	Long Term	6.00	ACUITE B (Indicative)
23-Nov-2017	Cash Credit	Long Term	6.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	3.75	ACUITE B / Stable (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	6.00	ACUITE BB- / Stable (Upgraded from ACUITE B/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BB- / Stable (Upgraded from ACUITE B/Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuite.ratings.in	

About Acuité Ratings & Research:

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