

Press Release

Associated Insulation Company

December 26, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.75 Cr.
Long Term Rating	SMERA B- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B-**' (read as **SMERA B minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 8.75 crore bank facilities of ASSOCIATED INSULATION COMPANY. The outlook is '**Stable**'.

Associated Insulation Company (AIC) is a Vadodara (Gujarat) based partnership firm established in 1986. The firm promoted by Mr. M.V. Dhuvad and Mr. C.M. Dhuvad is engaged in undertaking thermal insulation works for power plants, oil refineries, petro chemicals units, fertilizer plants and other manufacturing units. AIC is approved and registered with reputed Indian and overseas consultants, including TOYO Engineering India Ltd., Engineers India Limited, TATA Consulting Engineers, Samsung Engineering, etc.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The firm is engaged in undertaking thermal insulation works since 1987. The promoters of the firm Mr. M.V. Dhuvad (diploma in mechanical engineering) and Mr. C.M. Dhuvad (B.E. [Chemical]) possess more than four decades of relevant experience which has helped the entity establish long standing relations with reputed clients.

Weaknesses

- **Relatively small scale of operations**

The scale of operations is relatively small with operating income of Rs.5.62 crore for FY2017 compared to Rs.8.40 crore in the previous year on account of less number of tenders received by the firm. Further, as informed by the management, AIC reported operating income of Rs. 2.00 crore for the period April 2017 to November 2017 (provisional). AIC has unexecuted order book position of Rs. 10.74 crore which provides moderate revenue visibility over the medium term.

- **Average financial risk profile**

The financial risk profile of the firm is average marked by low networth and modest gearing and debt protection measures. The networth levels of the company stood at Rs. 6.74 crore as on 31 March, 2017 as against Rs. 5.71 crore as on 31 March, 2016. The gearing ratio stood at 0.84 times as on 31 March, 2017 as against 1.08 times as on 31 March, 2016. The total debt of Rs. 5.67 crore includes unsecured loans from financial institutions of Rs.0.18 and working capital loan of Rs.5.49 crore. The interest coverage ratio (ICR) stood at 1.22 times for FY2017 and 1.17 times for FY2016. The net cash accruals to total debt (NCA/TD) stood at 0.04 times in FY2017 as against 0.03 times in FY2016.

- **Working capital intensive nature of operations and stretched liquidity**

The operations of the company are working capital intensive in nature marked by Gross Current Assets (GCA) days of 1,081 for FY2017 and 682 in FY2016. The GCA days are high on account of stretched debtor Days of 959 in FY2017 and 572 in FY2016 and high inventory holding period of 99 days in FY2017 and 90

Days in FY2016. The liquidity position of the firm is stretched as the cash credit limit has been fully utilised during the last six months ended 30 November, 2017.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Associated Insulation Company to arrive at the rating.

Outlook: Stable

SMERA believes the outlook on AIC's rated facilities will remain stable over the medium term on account of its promoters' extensive experience in the industry. The outlook may be revised to 'Positive' in case of strong growth in scale of operations with sustained improvement in profit margin and improving working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the scale of operations, profitability, and capital structure.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	5.62	8.40	10.48
EBITDA	Rs. Cr.	1.21	1.27	1.69
PAT	Rs. Cr.	0.17	0.12	0.40
EBITDA Margin	(%)	21.48	15.17	16.07
PAT Margin	(%)	2.97	1.42	3.81
ROCE	(%)	9.96	11.16	33.08
Total Debt/Tangible Net Worth	Times	0.84	1.08	1.46
PBDIT/Interest	Times	1.22	1.17	1.34
Total Debt/PBDIT	Times	4.47	4.61	3.46
Gross Current Assets (Days)	Days	1081	682	485

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

ICRA, vide release dated September 12, 2016, has suspended the ratings of AIC on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	5.50	SMERA B- / Stable

Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	SMERA A4
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ABOUT SMERA

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