

Press Release

Embee Ferro Alloy Private Limited

June 25, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.40 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 15.40 crore bank facilities of Embee Ferro Alloy Private Limited. The outlook is '**Stable**'.

Embee Ferro Alloy Private Limited (EFAPL) was incorporated in the year 2005 by Mr. Sanjay Kumar Agarwal, Mr. Sunil Kumar Agarwal and Mr. Anil Kumar Agarwal. The company is engaged in manufacturing of silico manganese with an installed capacity of 14500 tonnes per annum. The manufacturing location of the company is Bankura, West Bengal.

Key Rating Drivers

Strengths

- **Experienced management team**

The directors of the company Mr. Sanjay Kumar Agarwal, Mr. Sunil Kumar and Mr. Anil Kumar Agarwal are having more than a decade of experience in the same line of business through group companies.

- **Healthy revenue growth trend**

The company is having healthy revenue growth trend over the past three years. For FY18, the company has booked revenue of Rs.67.63 crore (Provisional) as against Rs.42.55 crore in the previous year and Rs.19.96 crore in FY16. The revenues have increased at a CAGR of more than 50 percent in the past three years ended FY'2018. The turnover levels have been increasing steadily due to better capacity utilizations.

- **Improvement in working capital cycle**

EFAPL registered improvement in working capital cycle. The Gross Current Asset stood at 39 days in FY2018 (Provisional) as against 91 days in FY2017. Further, the working capital cycle days stood at 15 in FY2018 (Provisional). This is on account of moderate inventory holding period which stood at 28 days in FY2018 (Provisional) as against 77 days in FY2017. The debtor days stood low at 8 for FY2018 (Provisional), as against 5 days in FY2017.

Weaknesses

- **Constrained financial risk profile**

The company's financial risk profile is marked by low net worth, moderate gearing and low debt protection measures. The net worth of the company stood at Rs.9.99 crore as on 31st March 2018(Provisional) as against Rs.8.90 crore in the previous year. The net worth includes unsecured loans of Rs.6.97 crore in FY2018(Provisional) as against Rs.6.38 crore in the previous year, which ACUITE has treated as a quasi-equity. The treatment of quasi equity is based on an undertaking submitted by the company that the amount would be maintained in business over the medium term. The gearing of the company stood at 1.29 times as on 31st March 2018 (Provisional) as against 1.81 times in the previous year. The total debt of Rs.12.86 crore as on March 31st 2018 (Provisional) consists of long term loan of Rs.2.86 crore, short term borrowings of Rs.4.01 crore and CPLTD of Rs.2.99 crores. The interest coverage ratio stood at 1.85 times in FY18 (Provisional) as against 0.80 times in the previous year. The DSCR stood low at 0.87 times for FY18 (Provisional). The (Net cash accruals to total debt) NCA/TD ratio stood at 0.17 times in FY18 (Provisional).

• Stretched liquidity position

The company is having stretched liquidity position marked by around 91 percent average cash credit utilization for the last six months ended May 2018. Further, the company is having significant debt service obligations of Rs.2.99 crore on account of the term loans availed as against low net cash accruals of Rs.2.21 crore from operations. However, the company has infused funds in the form of unsecured loans in order to repay debt obligations.

• Intense competition and fragmented nature of business

The company is operating in a highly fragmented industry marked by various organized and unorganized players hence limiting the bargaining power of the company and thus impacting the profitability.

Analytical Approach

ACUITE has considered the standalone financials of the company.

Outlook: Stable

Acuite believes that EFAPL will continue to benefit over the medium term mainly due to stabilization of its operations. The outlook may be revised to 'Positive' in case of significant improvement in its liquidity position coupled with improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if group's revenue and profitability decline or if its financial risk profile weakens, most likely because of a stretch in its working capital cycle or large debt-funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	67.63	42.55	19.96
EBITDA	Rs. Cr.	5.06	2.35	1.80
PAT	Rs. Cr.	0.51	-2.44	-0.98
EBITDA Margin	(%)	7.48	5.52	9.01
PAT Margin	(%)	0.75	-5.73	-4.90
ROCE	(%)	14.16	1.94	5.07
Total Debt/Tangible Net Worth	Times	1.29	1.81	1.46
PBDIT/Interest	Times	1.85	0.80	1.05
Total Debt/PBDIT	Times	2.53	6.70	10.08
Gross Current Assets (Days)	Days	39	91	244

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

ICRA, vide its press release dated January 11, 2018 had denoted the rating of Embee Ferro Alloys Private Limited as "ICRA B/Stable/ICRA A4; ISSUER NOT COOPERATING" on account of lack of adequate information required for monitoring of ratings.

Any other information

Not applicable

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)

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	4.50	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.90	ACUITE B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in</p> <p>Deep Majumder Analyst - Rating Operations Tel: 022-67141147 deep.majumder@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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