Press Release

Specific Alloys Private Limited

June 09, 2021

Rating Downgraded & Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating of **'ACUITE B+' (read as ACUITE B plus) from 'ACUITE BB-' (read as ACUITE double B minus)** and reaffirmed the short term rating of **'ACUITE A4' (read as ACUITE A four)** on the Rs.10.00 crore bank facilities of Specific Alloys Private Limited (SAPL). The outlook is **'Stable'**.

About the company

Incorporated in 2000, Specific Alloys Private Limited (SAPL) is a Maharashtra-based company engaged in manufacturing of aluminum alloys of all grades. It is operated by its managing director, Mr. Narendra Mohanlal Surana, along with directors, Mr. Lakendra Narendra Surana and Mr. Jinendra Narendra Surana. It has two manufacturing units; one in Alandi, Maharashtra whose capacity is 375 MT per month with utilization of 370 MT per month and another one in Pirangut, Maharashtra, whose capacity is 225 MT per month with utilization of 150 MT per month.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SAPL to arrive at the rating

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Incorporated in 2000, Specific Alloys Private Limited (SAPL) is led by its managing director, Mr. Narendra Mohanlal Surana, who has experience of more than three decades in the aluminum industry and directors, Mr. Lakendra Narendra Surana and Mr. Jinendra Narendra Surana, who have experience of a decade in the aluminum industry. The extensive experience of the directors has led to established market presence of SAPL, enabling it to build strong business ties with its suppliers and customers. Further, there has been a healthy infusion of funds by promoters in the form of unsecured loans totaling to Rs. 1.50 crore for FY2020.

Weaknesses

- **Competitive and fragmented industry**

SAPL operates in a highly competitive and fragmented industry characterized by presence of large number of organised and unorganised players, affecting margins and bargaining power with customers.

- **Average financial risk profile**

The financial risk profile of the company is average marked by modest net worth, high gearing and moderate debt protection measures. The tangible net worth stood modest at Rs.9.16 crore as on 31 March, 2020 as against Rs.8.26 crore as on 31 March, 2019. The gearing stood high at 4.55 times as on 31 March, 2020 as against 3.09 times as on 31 March, 2019. The total debt of Rs.41.69 crore outstanding as on 31 March, 2020 comprises of Rs.26.53 crore term loans, Rs.1.69 crore of unsecured loans and Rs.13.46 crore as working capital borrowings. The interest coverage ratio stood at 1.44 times in FY2020 as against 1.62 times in FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.33 times in FY2020 as against 1.48 times in FY2019. The total outside liabilities to tangible net worth (TOL/TNW) deteriorated to 4.95 times as on 31 March, 2020 as against 3.49 times as on 31 March, 2019.

- **Intensive working capital operations**

The company's operations are working capital intensive marked by high Gross Current Asset (GCA) days of 204 in FY2020 as against 99 in the previous year. This is mainly on account of increase in debtor day to 122 for FY2020 from 31 days in previous year. This is majorly because during March 2020 Covid19 had impacted and company's customers' payments were delayed as operations across were not 100 per cent. Inventory days stood at 81 for FY2020 as against 68 for FY2019. Further, the average cash credit utilization stood at around 100 percent for last six months ending March, 2021.

Rating Sensitivity

- Deterioration in profitability margins.
- Significant decline in scale of operations
- Substantial deterioration in working capital operations

Material Covenants

None

Liquidity position: Stretched

SAPL has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.46 crore in FY2020 as against maturing debt obligation of Rs.4.87 crore in FY2020. However, company was able to bridge this gap through internal accruals along with unsecured loans from directors of around Rs.1.50 crore in FY2020 and it will continue to support in future too. The company's working capital operations are intensive as marked by high gross current asset (GCA) days of 204 in FY2020. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilised during the last 6 months' period ended March, 2021. The company maintains unencumbered cash and bank balances of Rs.1.75 crore as on March 31, 2020. The current ratio of the company stood at 2.56 times as on March 31, 2020.

Outlook: Stable

Acuité believes that SAPL will maintain a `Stable' business profile in the medium term, while benefitting from its experienced management, growth in operations and comfortable working capital cycle. The outlook may be revised to 'Positive' if ATPL shows significant improvement in financial risk profile and revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than- expected growth in revenues and profitability or in-case of further deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	76.14	90.56
PAT	Rs. Cr.	1.01	1.60
PAT Margin	(%)	1.33	1.77
Total Debt/Tangible Net Worth	Times	4.55	3.09
PBDIT/Interest	Times	1.44	1.62

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
17-Sep-19	Cash Credit	Long term	7.50	ACUITE BB-/Stable (Reaffirmed)
	Bill Discounting	Short Term	2.50	ACUITE A4 (Reaffirmed)
04-Jul-18	Cash Credit	Long term	7.50	ACUITE BB-/Stable (Assigned)
	Bill Discounting	Short Term	2.50	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE B+/ Stable (Downgraded)
Bill Discounting	Not Available	Not Applicable	Not Available	2.50	ACUITE A4 (Reaffirmed)

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Contacts

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About Acuité Ratings & Research:
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