

Press Release

Specific Alloys Private Limited

August 29, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|------------------------------------|---------------------------|
| Bank Loan Ratings | 2.50 | - | ACUITE A4 Reaffirmed |
| Bank Loan Ratings | 7.50 | ACUITE B+ Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 10.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.10.00 Cr bank facilities of Specific Alloys Private Limited (SAPL). The outlook is '**Stable**'

Rationale for reaffirmation

The rating reaffirmation takes into consideration company's long track record of operations and established market position in the aluminum industry. The rating is however constrained by the deteriorating operating performance, weak financial risk profile and stretched liquidity position of the company.

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

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

Key Rating Drivers

Strengths

Established track record of operations and experienced management

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.

Acuité believes that the company will benefit from its experienced management, long track of operation and diversified product portfolio.

Weaknesses

Deteriorating operating performance

Operating performance of SAPL has seen a deterioration as revenues of the company have dropped to Rs. 46.16 crores in FY2022 from Rs. 51.00 crores in FY2021. Its peak turnover was at Rs. 92.20 crore in FY2018. Specific Alloys Pvt Ltd manufactures various types of Aluminum alloys for Auto ancillary companies. EBITDA margins of the company remained range bound at 8.13 percent in FY2022 as against 8.94 percent in FY2021. PAT margins stood at 1.18 percent in FY2022 as against 1.05 percent in FY2021.

Working Capital Operation is intensive in nature

Working capital operations of the company is intensive marked by GCA days of 345 days in FY2022 as against 290 days in FY2021. High GCA days are driven by high debtor and inventory days. Debtor days stood at 205 days in FY2022 as against 168 days in FY2021. Higher debtor days in FY2022 is on account of year end sales in FY2022. Inventory holding period stood at 135 days in FY2022 as against 126 days in FY2021. Raw materials of the company majorly include aluminum scrap.

Acuité believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

Weak financial risk profile

Financial risk profile of the company is weak with a moderate tangible network, high gearing and stretched debt protection metrics. Tangible network of the company stood at Rs. 10.16 crore as on 31st March 2022 as against 9.61 crore as on 31st March 2021. Increase in tangible network is on account of accretion of profits to reserves. Gearing of the company is high at 4.24 times as on 31st March, 2022 as against 4.32 times as on 31st March, 2021. TOL/TNW stood at 4.26 times as on 31st March 2022 as against 4.39 times as on 31st March, 2021. Debt protection metrics of the company is stretched with DSCR below unity. DSCR of the company stood at 0.69 in FY2022 as against 0.52 times in FY2021. Interest coverage ratio stood at 1.29 times in FY2022 as against 1.36 times in FY2021.

Acuite believes that the financial risk profile of the company is likely to remain weak on account of slow recovery in the business risk profile and significant debt repayment obligation.

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

Rating Sensitivities

- Improvement in the scale of operation while maintaining its profitability margin at the current level
- Any deterioration or stretch in the working capital cycle may impact the financial risk profile

Material covenants

None

Liquidity: Stretched

SAPL has a stretched liquidity marked by insufficient net cash accrual as against debt repayment obligation. Net cash accruals of the company stood low at Rs.0.84 crore in FY2022 as against debt repayment obligations of Rs. 2.5 crore during the same period. The company is expected to generate insufficient net cash accruals as against the debt repayment obligation. Further, the company has high reliance on working capital limits as the bank limit remains fully utilized. The company has unencumbered cash balances of Rs. 0.56 crore as on 31st March 2022 as against Rs. 0.45 crore as on 31st March, 2021.

Acuité believes that the liquidity of the company is likely to remain stretched on account of insufficient net cash accruals and significant debt repayment obligations.

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

Other Factors affecting Rating

Not applicable

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 46.16 | 51.00 |
| PAT | Rs. Cr. | 0.54 | 0.53 |
| PAT Margin | (%) | 1.18 | 1.05 |
| Total Debt/Tangible Net Worth | Times | 4.24 | 4.32 |
| PBDIT/Interest | Times | 1.29 | 1.36 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <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 |
|-------------|--------------------------------|------------|-----------------|--|
| 09 Jun 2021 | Bills Discounting | Short Term | 2.50 | ACUITE A4 (Reaffirmed) |
| | Cash Credit | Long Term | 7.50 | ACUITE B+ Stable (Downgraded from ACUITE BB- Stable) |
| 17 Sep 2019 | Bills Discounting | Short Term | 2.50 | ACUITE A4 (Reaffirmed) |
| | Cash Credit | Long Term | 7.50 | ACUITE BB- Stable (Reaffirmed) |
| 04 Jul 2018 | Cash Credit | Long Term | 7.50 | ACUITE BB- Stable (Assigned) |
| | Bills Discounting | Short Term | 2.50 | ACUITE A4 (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------|----------------|-------------------|------------------|----------------|----------------|-------------------|---------------------------------|
| Canara Bank | Not Applicable | Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE A4 Reaffirmed |
| Canara Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 7.50 | ACUITE B+ Stable Reaffirmed |

Contacts

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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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