

Press Release

Aqua Excel

November 17, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.80 Cr.
Long Term Rating	ACUITE D

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE D**' (read as **ACUITE D**) to the Rs.15.80 crore bank facilities of Aqua Excel.

Aqua Excel was established as a partnership firm in 2014 located at Coimbatore (Tamil Nadu). The firm manufactures polyvinylchloride (PVC) pipes and fittings, Chlorinated polyvinyl chloride (CPVC) pipes and fittings, which are largely used in agriculture and construction sectors. The manufacturing unit is located at Peelamedu in Coimbatore with an installed capacity of 900 metric tonnes per annum (MTPA). The firm is promoted by four partners, Mr. K Ganesan, Mr. V Dinesh Kumar, Mr. A Ramasamy, and Mrs. M Nagamani. The firm sells its products under the brand name of 'Aqua Excel'.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established relationship with stakeholders**

The partners are involved in the functional areas of the business and two of the partners are in similar line of business through association with another firm since 1998. Though commercial operations started in 2015, however, owing to the two decades of experience of the promoters and the distribution network, the firm has reported healthy compound annual growth rate (CAGR) of about 51 percent over three years through FY2018, though on a modest base of Rs.3.50 crore in FY2016 to Rs.12.1 crore in FY2018. Improving revenue base and better absorption of overheads has resulted in improvement of profitability margins to about 16.2 percent in FY2018 from negative margins in the past. Acuité believes that though the business risk profile is improving supported by experienced management team, aptly managing the working capital is a key rating sensitivity factor over the medium term.

Weaknesses

- Weak liquidity profile resulting in delays in debt servicing**

The firm has been delaying in servicing of its loan obligations. As of October 29, 2018, the overdues in the loan facilities are of more than 30 days. The delays are due to past losses, intense working capital requirement with Gross Current Assets (GCA) days of over 300 in FY2018, modest scale of operations and accruals, and mismatch in the cash flows.

- Weak financial profile**

The financial risk profile of the firm is weak marked by weak capital structure reflected by high gearing (debt-to-equity), high total outside liabilities to tangible net worth (TOL/TNW), and weak debt protection metrics. The gearing is high at 6.24 times as on March 31, 2018, owing to moderate capex executed of Rs.6.41 crore in FY2018. TOL/TNW is high at 7.88 times as on March 31, 2018 as against 4.33 times as on March 31, 2017. The net worth is modest at Rs.3.07 crore as on 31 March, 2018. The debt protection metrics are weak as interest coverage ratio (ICR) stood at 1.09 times and net cash accruals to total debt (NCA/TD) stood at 0.01 times in FY2018. Acuité believes that the financial profile of the firm is expected to be at similar levels over the medium term owing to modest scale of operations and intense working capital requirement.

• **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 366 days in FY2018 improved from 565 days in FY2017. They are expected to be at similar levels due to the time taken for manufacture, staggered deliverables to its clientele and maintenance of inventory for increasing volumes. The inventory days over the past three years have been comfortable at about 163 days and receivable days are around 103 days. The working capital limits of Rs.4.50 crore of cash credit have been utilised at about 96 percent over six months through September 2018. Acuite believes that with the nature of the business model, the operations continue to be working capital intensive over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	12.11	8.06	3.49
EBITDA	Rs. Cr.	1.96	0.28	(0.88)
PAT	Rs. Cr.	(1.57)	(2.65)	(3.27)
EBITDA Margin	(%)	16.22	3.44	(25.20)
PAT Margin	(%)	(13.00)	(32.93)	(93.52)
ROCE	(%)	1.13	(5.56)	(25.69)
Total Debt/Tangible Net Worth	Times	6.24	3.80	5.21
PBDIT/Interest	Times	1.09	0.17	(0.79)
Total Debt/PBDIT	Times	9.69	54.32	(16.11)
Gross Current Assets (Days)	Days	366	565	950

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

***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 D
Term loans	Not Applicable	Not Applicable	Not Applicable	11.30	ACUITE D

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About Acuité Ratings & Research:

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