

Press Release

Nealex Alloys Private Limited

D-U-N-S® Number: 85-970-2137

March 19, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.60 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité 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**) to the Rs. 7.60 crore bank facilities of Nealex Alloys Private Limited (NAPL). The outlook is '**Stable**'.

Incorporated in 2008, NAPL manufactures aluminium profiles and sections, and other industrial products. The company's manufacturing unit is located at Vijayawada (Andhra Pradesh) and has a total installed manufacturing capacity of 2,000 metric tonnes per annum (MTPA). Its products include aluminum profiles used as panels, channels, and verticals in residential, construction, power, automotive, consumer goods, and other industries. The day to day operations are managed by Mr. Kalva Praveen Kumar (Managing Director) and family.

Analytical Approach

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

Key Rating Drivers

Strengths

- Extensive industry experience of the promoter and strong customer relationships**

The promoter has an experience of nearly a decade in the aluminium industry, which has helped in building strong relations with suppliers as well as customers in the industry. This has resulted in regular business from these customers over the years resulting in consistent growth in the revenues of NAPL, at a compound annual growth rate (CAGR) of about 30 per cent over the past three years through FY2018 at Rs.17.11 crore. Acuité believes that the NAPL's longstanding presence and promoter's client relationship are expected to support in improving the business risk profile of the company over the medium term.

Weaknesses

- Modest scale of operations and large working capital requirement**

The company's scale of operation is modest in the aluminium extrusion industry reflected in net sales of Rs.17.11 crore in fiscal 2018. Though the revenues have improved at a compound annual growth rate (CAGR) of about 30 percent over the past three years through FY2018, however they are at a modest level within the industry. Further, domestic non-ferrous metal industry remains highly competitive. Since the metal industry is a price sensitive industry, stocking up of inventory beyond certain extent may cause erosion in the profitability margins. The margins and cash flows are also susceptible to demand from end-user industries, such as real estate and construction, among others. Acuité believes that the scale and margins of NAPL will remain modest over the medium term.

- Below average financial risk profile**

NAPL's financial risk profile is below average marked by weak capital structure (debt-to-equity and gearing), total outside liabilities to total net worth (TOL/TNW) and average debt protection metrics. The capital structure is weak marked by high gearing and TOL/TNW of 3.35 and 4.85 times as on March 31, 2018 against 3.31 and 4.30 times as on March 31, 2017, respectively. NAPL's net worth is

modest at Rs.2.96 crore as on March 31, 2018 as compared to Rs.2.91 crore as on March 31, 2017. NAPL's debt protection metrics are average with interest coverage ratio (ICR) of 1.54 times and net cash accruals to total debt of 0.04 times for FY2018. Acuite believes that the financial risk profile is expected to be at similar levels on the back of modest accruals and working capital intensive operations over the medium term.

• Working capital intensive operations

The operations are highly working capital intensive as marked by high Gross Current Assets (GCA) of 316 days as on March 31, 2018. They are expected to be at similar levels due to the time taken for manufacture and staggered deliverables to its clientele. The inventory days over the past three years have been average of around 300 days. As a result, its working capital limits, though moderate, have been highly utilised at about 98 percent for six months through December 2018. Acuite believes that the operation of NAPL continues to be working capital intensive due to the industry nature, and increasing scale of operations.

Liquidity Profile:

NAPL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. It has generated cash accruals of Rs.0.40 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.25 crore over the same period. The cash accruals of NAPL are estimated in the range of Rs.0.60-1.00 crore over the medium term, against which its repayment obligations are estimated to be Rs.0.30 crore. NAPL's operations are highly working capital intensive as marked by gross current asset (GCA) days of 316, which lead to high utilisation of its working capital lines at about 98 percent. The current ratio of the NAPL is moderate at 1.59 times as on March 31, 2018. Acuite believes that NAPL's liquidity continues to be at similar levels over the medium term.

Outlook: Stable

Acuite believes that NAPL will maintain a 'Stable' outlook in the medium term on account of the experienced promoter and established relations with suppliers and customers. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while improving its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	17.11	11.26	10.18
EBITDA	Rs. Cr.	1.16	1.09	1.18
PAT	Rs. Cr.	0.14	0.19	0.14
EBITDA Margin	(%)	6.79	9.66	11.61
PAT Margin	(%)	0.83	1.70	1.34
ROCE	(%)	7.71	7.18	15.90
Total Debt/Tangible Net Worth	Times	3.35	3.31	3.26
PBDIT/Interest	Times	1.54	1.65	1.59
Total Debt/PBDIT	Times	8.16	8.54	7.46
Gross Current Assets (Days)	Days	316	416	430

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

None

Any other information

None

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	5.00	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B+ / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4

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About Acuité Ratings & Research:

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