

Press Release

Nealex Alloys Private Limited

May 05, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.7.60 Cr.
Long Term Rating	ACUITE B+/Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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 above-mentioned bank facilities of NEALEX ALLOYS PRIVATE LIMITED (NAPL). The outlook is '**Stable**'.

Andhra Pradesh-based, NAPL was incorporated in 2008 by Mr. Hari Kiran father of Mr. Praveen Kumar. The company is engaged in the trading and manufacturing of solid and hollow aluminum extrusion profiles. Its products portfolio consists of aluminum alloy ingots, Aluminum bars, and rods etc., which are used as panels, channels, and verticals in residential, construction, power, automotive, consumer goods, and other industries.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of NAPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management**

NAPL is in the said line of business since 2008. The promoter has an experience of almost a decade in the aluminum industry. The extensive experience and long-standing presence of the promoter's in the business have helped them to maintain healthy relations with customers and suppliers. This can be seen through revenue growth year-on-year basis, marked by Rs.22.96 crore in FY2019 against Rs.17.11 crore in FY2018 and Rs.11.26 crore in FY2017. Acuite believes that the NAPL's longstanding presence and relationship with its customers are expected to support in improving its business risk profile over the medium term.

Weaknesses

- Working capital intensive operations**

NAPL's operations are intensive as evident from Gross Current Asset (GCA) of 460 days as on March 31, 2019 as against 316 days as on March 31, 2018. The debtor's days were recorded at 218 days for FY2019 from 62 days in FY2018. The inventory days were recorded at 228 days in FY2019 against 231 days in FY2018. Further, the company has stretched creditors of 248 days for FY2019 and 101 days for FY2018. Acuite believes the working capital management will remain the key rating sensitivity.

- Below Average Financial Risk Profile**

The financial risk profile of the company is below average marked by low net worth of Rs.3.14 crore as on March 31, 2019 as against Rs.2.96 crore as on March 31, 2018. Gearing of NAPL stood high at 3.12 times as on March 31, 2019 as against 3.35 times as on March 31, 2018. The total debt of NAPL stood at Rs.9.79 crore as on March 31, 2019, consists of short term borrowings of Rs.5.05 crore, unsecured loan from promoters of Rs.2.67 crore and term loans of Rs.2.07 crore. The debt protection metrics are average with interest coverage ratio (ICR) of 1.62 times in FY2019 as against 1.54 times in FY2018. Net cash accruals to total debt stood low at 0.04 times for FY2019. Acuite believes that the financial risk profile is expected to be at similar levels over the medium term.

Rating Sensitivities

- Increase in its scale of operations along with improvement in profitability
- Elongation of working capital cycle

Material Covenants

None

Liquidity: Stretched

Liquidity of NAPL is stretched marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.0.44-Rs.0.42 crore during the last two years through FY2019, while its maturing debt obligations are in the range of Rs.0.27-0.20 crore over the same period. The cash accruals of NAPL are estimated to remain around Rs.0.34-0.54 crore during 2020-22, against debt obligations of around Rs.0.20 crore over the same period. The working capital operations of the company are intensive marked by gross current asset (GCA) days of 460 in FY2019. The cash credit limit remains fully utilized. The company maintains unencumbered cash and bank balances of Rs.0.05 crore as on March 31, 2019. The current ratio stands at 1.22 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term.

Outlook: Stable

Acuite believes that NAPL will maintain 'Stable' outlook in the medium term on account of experienced management in the industry. The outlook may be revised to 'positive' if the company registers higher than expected growth in revenues and improvement its capital structure. Conversely, the outlook may be revised to negative in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	22.96	17.11
PAT	Rs. Cr.	0.19	0.14
PAT Margin	(%)	0.81	0.83
Total Debt/Tangible Net Worth	Times	3.12	3.35
PBDIT/Interest	Times	1.62	1.54

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto three years)

Date	Name of Instrument/ Facility	Term	Amount (Rs. Cr)	Ratings/Outlook
19-Mar-2019	Cash Credit	Long Term	5.00	ACUITE B+/ Stable (Assigned)
	Term Loan	Long Term	0.75	ACUITE B+/ Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.25	ACUITE B+/ Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A4 (Assigned)

	Bank Guarantee	Short Term	0.60	ACUITE A4 (Assigned)
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***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 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B+ /Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE B+ /Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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