Press Release

Manaksia Aluminium Company Limited

June 29, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 165.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs. 165.00 crore bank facilities of MANAKSIA ALUMINIUM COMPANY LIMITED (MACL). The outlook assigned is **'Stable'**.

MACL is a Kolkata-based company managed by Mr. Sunil Agrawal and Mr. Anirudh Agrawal. It was incorporated in 2010 and was a dormant company till 2013. Subsequently, the Aluminium vertical of Manaksia Limited (ML) was transferred under the scheme of demerger. ML is a multi-division conglomerate with 17 manufacturing plants in India and 3 abroad; two in Nigeria, one in Ghana. Prior to the demerger ML had four divisions viz. steel division, packaging division, coated metal & mosquito coil division and aluminum division.

MACL is primarily engaged in the manufacturing of value added aluminium products such as Aluminum Rolled Sheets / Coils, Aluminum Patterned Sheets, Aluminum Roofing Sheets, Aluminum Flooring Sheets, Aluminum Alloy Ingots. The Aluminium caster division of the company has an operational capacity to produce 18,000 MT per annum of caster coils and an operational capacity of 18,000 MT per annum of Aluminium rolled products.

The company is in the process of expanding its manufacturing unit by setting up of an additional caster plant and improvement in the existing rolling mill for manufacturing higher quality products. The new caster unit will have an installed capacity of 650 mt per month i.e. 7800 MTPA to produce caster coils. After expansion, the manufacturing capacity will equal 43,800 MTPA of aluminum rolled coil/sheets. The company's manufacturing facilities are located in Haldia and Barjora Bankura (West Bengal).

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

Key Rating Drivers

Strengths

- **Established market position in Aluminium rolled products**

  MACL has been engaged into manufacturing of Aluminium rolled products and caster coils since 2013. Prior to 2013, the operations were under Manaksia Ltd. ML is the flagship company of the group. ML has been engaged in this industry for more than 40 years and is promoted by Mr. Sunil Kumar Agrawal, Mr. Sushil Kumar Agrawal, Mr. Anirudh Agrawal and Mr. Karan Agrawal. Mr. Anirudh Agrawal is an MBA graduate and has industry experience of around a decade in the rolled aluminium product manufacturing. Mr. Sunil Kumar Agrawal, a commerce graduate from Calcutta University, is the Managing Director of MACL and has an experience of about three decades in manufacturing and factory administration for metal packaging and aluminum rolling products.

  The extensive experience of the promoters in the industry has helped the company build strong market presence. The company is in the process of expanding its manufacturing unit by setting up of an additional caster plant and improvement in the existing rolling mill for manufacturing higher quality products. The new caster unit will have an installed capacity of 7800 MTPA to produce caster coils, thereby providing a strong revenue visibility over medium term. The expected commercial production for the caster plant is by August, 2019.

Acuité believes that MACL will continue to benefit from its experience in the said industry and its relations with large players in the aluminium industry over near to medium term. On account of its established presence in the industry, MACL has been able to build esteemed client profile. Some of the key customers are Maruti Udyog Limited (MUL), Dr. Reddy's Laboratories Limited (DRLL), Voltas Limited (VL), Samsung C&T Corporation (SC) among others.

- **Moderate Financial risk profile**

MACL's financial risk profile is marked by healthy net worth, low gearing and moderate debt protection measures. The net worth of the company increased to Rs.106.31 crore as on 31 March, 2019 as against Rs.99.03 crore in the previous year on account of increasing profitability and operating income, leading to higher accretion to reserves. The capital structure of the company was stable at 0.62 times as on 31 March, 2019 as against 0.87 as on 31 March, 2018 mainly due to accretion of profit to reserves.

The total debt of Rs. 65.91 crore consists of long term debt of Rs.8.39 crore, Rs.52.52 crore of short term debt obligations and Rs. 5.00 crore of unsecured loans from promoters and body corporates. The moderate improvement in profitability levels has resulted in healthy net cash accruals of Rs.12.30 crore during 2017-19, leading to moderate debt protection measures. The interest coverage ratio stood at ~2.00 times in FY19 as against 2.03 times in the previous year. Increase in turnover during FY19 vis-à-vis FY18 and improvement in operating margin from 6.08 percent in FY18 to 6.42 percent in FY19 has resulted in the cash accruals increasing from Rs. 6.27 crore in FY18 to Rs. 12.30 crore in FY19.

The company has Rs. 2.42 crore of annual debt obligation. Debt/EBITDA, though improved, however remained moderately high at 3.65 times in FY19. Acuité believes that the debt protection indicators are expected to improve on the back of optimal utilisation of the recently improved capacities. The improvement in scale of operations, expected expansion in operating profitability margins coupled with the gradual repayment of the term debt obligation are likely to result in moderation of the Debt/EBITDA metrics.

Weaknesses

- **Moderate operating margins, susceptibility to fluctuations in raw material prices**

Operating margins have remained moderate in the range of ~3.00 to 6.50 percent during the past 4 years. The company reported an operating margin of 6.42 percent as on 31 March, 2019 as against 6.08 percent in the previous year. The Aluminium rolled product manufacturers in India are exposed to the risk of volatility in Aluminium ingots, Aluminium scrap prices - commodity products, and hence, their prices are volatile. On account of competitive pressures, players face challenges in passing on increased costs to end users. Business risk profile will remain constrained by exposure to any slowdown in economic activity or lower investments in Packaging, infrastructure and housing can have a negative impact on operations.

- **Moderate working capital nature of operation**

The working capital management is marked by Gross Current Assets (GCA) of 192 days in FY2019 as against 197 days in FY2018. The company maintains inventory of around 120 days on an average due to lead time involved in import of raw-material and extends clean credit of around 30 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 103 days and 38 days in FY2019 as against 127 days and 27 days in FY2018, respectively. Acuité believes that the working capital requirement will continue to remain moderate over the medium term on account of its high inventory requirements

- **Risks associated with ramp-up of operations of new capacity**

The company is in the process of expanding its manufacturing unit by setting up an additional caster plant (company is already running 2 caster plants) at a total project cost of Rs.24.61 crore which is being partly funded by term loan of Rs. 15.00 crore and company's internal accruals of Rs. 9.61 crore. The new caster unit will have an installed capacity of 7800 MTPA to produce caster coils. The time taken to ramp up caster unit capacity and the resultant cash flow are key rating sensitivity factors.

Liquidity position:
MACL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.6.00-12.00 crore during the last three years through 2018 - 19, while its maturing debt obligations were in the range of Rs.2.42-8.00 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 10.00-15.00 crore during 2019-21. The company's operations are moderately working capital intensive as marked by Gross Current Asset (GCA) days of 192 in FY 2019. The company maintains unencumbered cash and bank balances of Rs.0.21 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.24 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals while its maturing debt obligations are estimated to be in the range of Rs. 2.42-2.72 crore.

Outlook: Stable
Acuité believes that the outlook on MACL's facilities will remain 'Stable' over the medium term on account of its promoters' extensive experience and moderate financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability largely facilitated through improvement in capacity utilisation. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital requirements or higher than anticipated capex.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	275.61	228.58	238.77
EBITDA	Rs. Cr.	17.68	13.89	6.71
PAT	Rs. Cr.	7.33	1.24	-5.35
EBITDA Margin	(%)	6.42	6.08	2.81
PAT Margin	(%)	2.66	0.54	-2.24
ROCE	(%)	6.83	4.46	0.72
Total Debt/Tangible Net Worth	Times	0.62	0.87	0.91
PBDIT/Interest	Times	1.99	2.03	0.95
Total Debt/PBDIT	Times	3.65	6.17	13.32
Gross Current Assets (Days)	Days	192	197	192

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

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	24.00*	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00#	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00@	ACUITE BBB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00@@	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00**	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	41.00	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A2+

**EPC/FBD/PCFC limit of Rs. 20.00 crore within the Cash credit limit of Rs. 24.00 crore*

***BG Limit of Rs. 2.00 crore within the overall LC limit of Rs. 20.00 crore*

#EPC/FBD/PCFC/WCDL limit of Rs. 6.00 crore within the Cash credit limit of Rs. 6.00 crore

@FBD/PCFC limit of Rs. 8.00 crore within the Cash credit limit of Rs. 8.00 crore

@@EPC/FBD/PCFC/WCDL limit of Rs. 7.00 crore within the Cash credit limit of Rs. 7.00 crore

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