

Press Release

Ambica Aluminium

October 22, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.06 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs. 9.06 crore bank facilities of AMBICA ALUMINIUM. The outlook is '**Stable**'.

Ambica Aluminium (AA) was established in 2014 by Mr. Mahendra Tank as a partnership firm. AA is engaged in manufacturing of aluminium extrusion known as aluminium profiles for commercial and industrial use. Currently, the manufacturing unit has a capacity of 15 tonnes per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the AA for arriving at the rating.

Key Rating Drivers

Strengths

• Experienced Management

The firm is promoted by Mr. Mahendra Tank who has almost two decades of experience across various businesses such as tiles and foam. They have been in the aluminium business since 2014. The firm has been able to generate healthy turnover in a very limited span of time. The revenues stood at Rs. 38.02 crores in FY2019 (Provisional) as against Rs.14.62 crores in FY2017. The extensive experience of the firm's partners has helped it to develop healthy relationship with its customers and suppliers. Acuité believes that AA will sustain its existing business risk profile on the back of experienced management.

• Modest scale of operations with improving capacity utilisation

The firm has been able to generate modest revenues in a period of five years. The revenues stood at Rs. 38.02 crores in FY2019 (Provisional) as against Rs.14.62 crores in FY2017. The capacity utilisation has improved from 45 per cent in FY2017 to almost 94 per cent in FY2019. The firm has recently doubled its capacity from 2400MT to around 5000MT annually. Acuité believes that AA will be able to further increase its revenues on the back of increasing capacity level.

Weaknesses

• Average financial risk profile

The firm has average financial risk profile, which is marked by moderate gearing (debt-to-equity ratio), moderate total outside liabilities to total net worth (TOL/TNW), and debt protections metrics though partly constrained by low networth. Gearing stood at 2.27 times as on 31 March, 2019 (Provisional) as against 2.39 times as on 31 March, 2018. TOL/TNW is moderate at 3.37 times as on 31 March, 2019 (Provisional) as against 3.42 times as on 31 March, 2018. Net worth is low at Rs.4.01 crore as on 31 March, 2019 (Provisional) as against Rs.3.56 crore as on 31 March, 2018. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 1.88 times and 0.08 times, respectively, in FY2019 (Provisional). Acuité believes that the financial risk profile of the firm is expected to be moderate in the absence of major debt funded capital expenditure.

- **Exposure to intense competition**

AA is exposed to intense competition as the aluminium industry is highly fragmented and competitive in nature that also limits the pricing flexibility of the players.

- **Partnership constitution of business**

There is risk of capital withdrawal owing to partnership constitution of business, following which the firm may have to rely more on external funding.

Outlook: Stable

Acuité believes that AA's outlook will remain 'Stable' over the medium term from its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues along with its financial risk profile and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

Rating Sensitivities

- Improvement in profitability and scale of operations leading to overall improvement in the financial risk profile.
- Stretch in working capital cycle leading to increase in borrowings and weakening of financial risk profile.

Material Covenants

None

Liquidity Position : Adequate

The firm has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. AA generated cash accruals of Rs.0.70-0.80 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs.0.50-0.60 crore over the same period. The cash accruals are expected to increase and remain around Rs.1.00-1.50 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.70-0.80 crore. Further, the cash credit limit of the firm is fully utilised. AA maintains cash and bank balances of Rs.0.04 crore as on March 31, 2019 (Provisional). The current ratio stood moderate at 1.31 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to improve over the medium term on account no major debt funded capex plans.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	38.02	30.45	14.62
EBITDA	Rs. Cr.	1.61	1.72	1.40
PAT	Rs. Cr.	0.16	0.11	0.02
EBITDA Margin	(%)	4.24	5.66	9.57
PAT Margin	(%)	0.41	0.35	0.13
ROCE	(%)	8.07	9.47	12.89
Total Debt/Tangible Net Worth	Times	2.27	2.39	2.56
PBDIT/Interest	Times	1.88	1.80	2.15
Total Debt/PBDIT	Times	5.65	4.91	5.35
Gross Current Assets (Days)	Days	114	136	251

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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	4.00	ACUITE B+ / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	2.71	ACUITE B+ / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+ / Stable (Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE B+ / Stable (Assigned)

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About Acuité Ratings & Research:

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