

Press Release

Sumridhi Aluminium Private Limited

April 03, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	70.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	70.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.70.00 Crore bank facilities of Sumridhi Aluminium Private Limited (SAPL). The outlook is '**stable**'.

Rationale for rating

The rating takes into account the established track record of operations of more than 15 years along with experienced management which is also reflected from its growing revenue trend driven by high metal prices and fluctuation in operating margin. Further, the rating factors in the moderate financial risk profile characterized by low gearing and strong debt protection metrics. These strengths are however, partly offset by the working capital intensive nature of operations and fragmented industry characterized by intense competition and vulnerability in the margins due to fluctuations in the raw material prices of the company.

About the Company

Sumridhi Aluminium Private Limited, incorporated in 2006. The company is engaged in the manufacturing of Aluminium Ingots & Billets. The Present Directors of the company are Mr. Anil Kanodia, Ms. Rekha Kanodia and Mr. Abhimanyu Kanodia. The registered office of the company is in Delhi. The Manufacturing unit of the company is in Palwal & Bawal.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Sumridhi Aluminium Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

Experienced Management and established track record of operations

SAPL has been engaged in manufacturing of aluminium ingots from 2006. Currently the company is managed by Mr. Anil Kanodia, Ms. Rekha Kanodia and Mr. Abhimanyu Kanodia who has an experience of about more than a decade in manufacturing of same field of business. The company caters to strong customer base in various end-user industries which includes OEM's in auto and auto-ancillary companies. The established track record has helped the company to maintain a longstanding relationship with reputed clientele like

Maruti Suzuki India Ltd, Sunbeam Lightweighting Solutions Pvt Ltd, Craftsman Automation Ltd who contributes more than 55% in SAPL's total revenue. Acuite believes that SAPL will continue to derive benefit from its established track record and longstanding relationship with reputed clientele.

Improvement in the scale of operations

The company has achieved the revenue of Rs.370.88 Crore in FY22 against Rs.236.30 Crore in FY21. The growth is driven by rise in average price realization in aluminium products and marginal increase in sales volume. Further, the EBITDA Margins of the company have shown fluctuations due to an impact of international market. The PAT Margin of the company stood at 3.33 percent in FY22 against 5.77 percent in FY21. The company has achieved revenue of Rs.376.03 Crore till February 2023 supported by increased sales volume and better price realization. Further the company is expecting to achieve revenue of Rs.429.09 Crore in FY23 on an account of orders company has received so far from OEM's such as Maruti, Hero and Honda. Acuite believes the scale of operation may remain at similar level over the medium term because of moderation in aluminium prices and current slowdown in certain markets such as USA, UK among others.

Moderate Financial risk profile

The financial risk profile of the company is moderate marked by moderate net-worth, moderate gearing and debt protection metrics. The net worth of the company stood moderate at Rs.43.67 Crore in FY22 against Rs.31.30 Crore in FY21, increase in networth is majorly due to accretion of profits to the reserves. The total debt of the company stood at Rs.86.60 Crore in FY22 against Rs.74.85 Crore in FY21. There is an increase in debt of the company due to the capital expenditure related to existing plant situated in Bagola. Further, the Debt-equity ratio of the company stood moderate at 1.98 times in FY22 against 2.39 times in FY21. The TOL/TNW ratio stood at 2.38 times in FY22 against 2.89 times in FY21. Further, the interest coverage ratio and Debt Service coverage ratio stood at 3.73 times and 2.67 times in FY22 respectively against 5.14 and 3.94 times in FY21. Further, the company is having capex plan to increase its capacity from 40,000 MT to 75,000 MT for molten aluminium with cost of approx.. Rs 76.6 Crore. However, this capex is to be done by internal accruals as well promoter has also infused funds in the form of USL of Rs 25 Crore and remaining through debt of Rs 29.76 Crore. The SAPL has also increased the short term debt by Rs 60 Cr in FY23. However, the leverage ratios are expected to remain moderate supported by improvement in profits and USL infused. Acuite believes that maintaining the moderate financial risk profile over a medium term is a key rating sensitivity.

Weaknesses

Working capital intensive operations

The working capital operation of the company are intensive marked by GCA days of 114 days in FY22 against 156 days in FY21. The GCA Days are improved on an account of improvement in the realization of debtors which stood at 52 days in FY22 against 62 days in FY21 along with improvement in the inventory days of the company which stood at 33 days in FY22 against 38 days in FY21. Going forward, there is an increase in inventory days to facilitate monthly orders in both units. On the other hand, creditor days of the company stood at 9 days in FY22 against 15 days in FY21. Acuite believes that working capital operations of SAPL may continue to remain intensive considering the nature of business and requirement to maintain an inventory at certain levels.

Fragmented industry characterized by intense competition and vulnerability to changes in commodity prices

The company works in a highly competitive and fragmented segment of the Indian aluminium market, which is characterised by the existence of numerous small, unorganised players. As a result, the industry's players have little pricing power and are subject to pressure from the competition to increase their profitability. Aside from this, its products, which are mostly used by intermediaries, are exposed to the risks linked to industry cyclicality and pricing volatility. The susceptibility of the margins to changes in the raw materials price is inherent in this industry.

Rating Sensitivities

- Maintaining moderate financial risk profile
- Sustained revenue growth with sustained profitability margin
- Elongation in working capital cycle leading to stretch in liquidity

Material covenants

None.

Liquidity Position Adequate

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.13.37 Crore in FY22 against debt repayment obligation of Rs.0.98 Crore in the same period. Further, the company is expected to generate the net cash accruals of Rs.17.68 Crore and Rs.24.58 Crore in FY23 and FY24 respectively against the debt repayment obligation of Rs.1.40 Crore and Rs.8.50 Crore in the same periods respectively. Further the current ratio of the company stood at 1.70 times in FY22 against 1.61 times in FY21. The consolidated average bank limit utilisation of the fund based facilities stood moderate at 80% and average non fund based facilities stood at 58% in last ten months ending January 2023. Acuite believes that liquidity position of SAPL may continue to remain adequate over medium term with sufficient cash accruals to cover its obligations along with moderate reliance on bank borrowings.

Outlook: Stable

Acuite believes that SAPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters, established track record and longstanding relationship with reputed clientele. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues while maintaining its margins and is able to improve working capital operations. Conversely, the outlook may be revised to 'Negative' if the company generates lower than anticipated cash accruals, most likely due to significant debt funded capex or impact on profitability margins, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	370.88	236.30
PAT	Rs. Cr.	12.37	13.64
PAT Margin	(%)	3.33	5.77
Total Debt/Tangible Net Worth	Times	1.98	2.39
PBDIT/Interest	Times	3.73	5.14

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of

the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on www.acuite.in.

Rating history

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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