



Press Release
AXAYYA ALLOYS PRIVATE LIMITED
May 23, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	39.50	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	18.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	57.50	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**Acuite BB+**' (read as **Acuite double B plus**) and short term rating of '**ACUITE A4+**' (read as **Acuite A four plus**) on Rs. 57.50 crore bank facilities of Axayya Alloys Private Limited. (AAPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned reflects established market position of the company and extensive experience of the promoters in the aluminium industry. The rating also draws comfort from the sustained improvement in the operating performance despite the covid induced lockdown and improvement in working capital operations of the company. The total operating income of the company stood at Rs. 197.11 Cr in FY23 (Prov.) as against Rs. 193.03 Cr in FY22 and Rs. 119.37 Cr in FY21. The rating however remains constrained by the moderate financial risk profile and stretched liquidity of the company marked by high reliance on working capital limits.

About the Company

Incorporated in 1981, Axayya Alloys Private Limited (AAPL) was originally promoted by Mr. N. N. Kheer and taken over by Mr. Manoharlal Lodha in 2008. The company is engaged in manufacturing of Aluminum Alloy Ingots. The manufacturing facility of the company is located at Khed in Pune with an annual manufacturing capacity of 21,600 MT. The company is currently promoted and managed by Mr. Manoharlal Lodha, Mr. Pavan Lodha and Mr. Mitesh Lodha.

Analytical Approach

Acuite has considered the standalone business and financial risk profile to arrive at the rating of AAPL

Key Rating Drivers

Strengths

Established track record of operations and experienced management

Incorporated in 1981, AAPL is a Maharashtra based company engaged in manufacturing of Aluminium alloy ingots. The company is promoted by the Lodha family and presently run and

managed by Mr. Manoharlal Lodha, Mr. Pavan Lodha and Mr. Mitesh Lodha who have wide experience in the industrial machine manufacturing sector. The operations of the company are managed by qualified and well experienced senior management team who are ably supported by a strong line of mid-level managers. The experience of the promoters and long track record of operations in the aforementioned industry has helped the company to maintain healthy and long-term relationships with both its customers and suppliers. Acuité believes that AAPL will continue to benefit from their established presence in the industry backed by promoters' vintage and established track record of operations.

Stable Operating performance

The operating performance of the company has recorded a strong growth marked by CAGR growth of 46 percent in the operating income over three years through 2022. The operating income of the company stood at Rs.193.03 crore in FY22 as against 119.37 crore in FY21 and 61.95 crore in FY20. Growth seen in the operating income comes at the back of increase in demand for the products coupled with price realisation. Operating income of the company stood at Rs. 197.11 crore for FY23 (Prov.)

The operating profit margins of the company has shown a consistent decline over the last three years. The operating margins of the company stood at 3.47 percent in FY22 as against 6.29 percent in FY21 and 8.8 percent in FY20. Such decline in operating margins comes at the back of certain one time fixed costs in FY21 and FY22. The normalised profits excluding such one time fixed costs stood at 4.70 percent in FY22 and 9.22 percent in FY21. The operating profits have further improved at 4.77 percent for FY23 (Prov.). The PAT margins of the company stood at 1.79 percent in FY23(Prov.) as against 1.06 percent in FY22 and 1.61 percent in FY21.

Acuité believes that the operating performance of the company is expected to improve on account healthy demand in the near to medium term. However, sustainability of the operating margins remains key rating sensitivity.

Weaknesses

Moderate working capital operations

The working capital operations of the company are moderate marked by GCA days of 113 days in FY22 as against 160 days in FY21 and 232 days in FY20. The GCA days if the company are driven by inventory holding period. The production cycle to make aluminium alloys is approximately 90 days and the company as a policy maintains inventory of 60-70 days. The inventory holding period of the company has improved to 83 days in FY22 as against 133 days in FY21 and 193 days in FY20. The debtor collection period of the company stood at 31 days in FY22 as against 33 days in FY21 and 48 days in FY20. The company purchased aluminium scrap domestically and through exports. The procurement of scrap is majorly on advance payment basis or through opening an LC of 90 days. The creditor days stood at 29 days in FY22 as against 65 days in FY21 and 33 days in FY20. The company's reliance on bank limits is high marked by fully utilized fund based and non-fund based bank limits.

The company's ability to manage its working capital operations efficiently will remain a key rating sensitivity.

Average financial risk profile

The financial risk profile of the company is average marked by low networth, low gearing and healthy debt protection metrics. The tangible networth of the company stood at Rs. 29.48 crore as on March 31, 2022 as against 18.83 crore as on March 31, 2021 and Rs. 17.18 crore as on March 2020. The increase in net worth is on account of increase in accretion of profits to reserves. Total debt of the company stood at Rs. 31.92 crore as on March 31, 2022 as against Rs. 35.54 crore as on March 31, 2021 and Rs. 32.74 crore as on March 31, 2020. The company follows a moderate financial policy marked by gearing (Debt/Equity) at 1.08 times as on March 31, 2022 as against 1.89 times as on March 31, 2021 and 1.91 times as on March 31, 2020. TOL/TNW of the company remains moderate at 1.65 times as on March 31, 2022 as against 2.70 times as on March 31, 2021 and 2.08 times as on March 31, 2020. Debt protection metrics remain healthy with DSCR of 1.60 times for FY22 as against 1.70 times for FY21 and 1.31

times for FY20. ICR stood at 2.04 times for FY22 as against 1.84 for FY21 and 1.33 times for FY21. Acuité expects AAPL's financial risk profile is likely to improve in the near to medium term on account of likely improvement in operating performance and absence of any major debt funded capex plan.

Profitability susceptible to fluctuations in raw material prices and customer concentration risk

Aluminium forms a major part of the raw material of the company. Prices of the products are linked to the London Metal exchange and hence the profitability of the company remains susceptible to fluctuation in commodity prices. Approximately 50-60 percent of the revenue is contributed by two major customers over the last two years where the end use is in the automobile and electronics industry. Hence, the performance is susceptible to cyclicity in investments by the end user industries. The diversification protects the company to some extent from a slowdown in demand prospects of any particular industry. Further, the aluminium alloy industry is largely fragmented and faces stiff competition from established foreign as well as domestic players.

Rating Sensitivities

- Any elongation in working capital cycle
- Sustained improvement in operating income and profitability
- Deterioration in financial risk profile

Material covenants

None

Liquidity Position Adequate

Liquidity of the company is stretched marked by fully utilized fund based as well as non-fund based bank limits. The company is however in the process of availing additional working capital limits- Rs. 7 crore Cash credit and Rs. 8 crore Letter of credit. However, the Net cash accruals of the company are sufficient to meet its debt service obligations. The net cash accruals stood at Rs. 3.53 crore in FY22 as against debt service obligations of Rs. 0.75 crore. The net cash accruals are expected to adequate to meet its debt service obligations in the near to medium term. The company maintained cash balance of Rs. 0.03 crore as on March 31, 2022.

Acuite believes that the liquidity of the company is likely to remain stretched over the near to medium term on account of high reliance on working capital limits and will remain a key rating sensitivity.

Outlook: Stable

Acuite believes that the outlook on the company rated facilities will remain 'Stable' over the medium term on account of the company's long track record of operations and experienced management. The outlook may be revised to 'Positive' in case of improvement in the scale of operations and financial risk profile and decreased reliance on working capital limits. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the financial risk profile or elongation of working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	193.03	119.37
PAT	Rs. Cr.	2.04	1.93
PAT Margin	(%)	1.06	1.61
Total Debt/Tangible Net Worth	Times	1.08	1.89
PBDIT/Interest	Times	2.04	1.84

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

Brickworks vide its press release dated 1.03.2023 had downgraded the company to BWR BB/Stable/A4; Issuer Not Cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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 :

None

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE BB+ Stable Assigned
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	7.41	ACUITE BB+ Stable Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.10	ACUITE BB+ Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.99	ACUITE BB+ 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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