

AMBITION MICA PRIVATE LIMITED

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Remarks
Long-term Bank Facilities	6.19	CARE B+ (Single B Plus)	Assigned

Rating Rationale

The rating assigned to the bank facilities of Ambition Mica Private Limited (AMPL) is constrained primarily on account of its recently commissioned debt funded project and susceptibility of its operating margins to fluctuations in raw material prices. The rating is further constrained on account of AMPL's presence in highly competitive and fragmented decorative laminate industry wherein demand is linked to the cyclical real estate industry.

The rating, however, takes comfort from the vast experience of promoters in the similar industry through group concern and established distribution network of AMPL.

Timely stabilization of the recently setup manufacturing facility, ability to achieve the envisaged level of sales while managing raw material price volatility are the key rating sensitivities.

Background

AMPL, incorporated in March 2010, is promoted by Mr Suresh Patel, Mr Ashwin Patel, Mr Valji Patel, Mr Govind Patel and Mr Prahlad Patel. AMPL had set up a greenfield plant at Dahegam, Gujarat for manufacturing of high pressure decorative laminates sheets and electric insulation boards with an installed capacity of 12 lakh units per annum. Commercial production for the plant has commenced from April 2011.

Credit Risk Assessment

Nascent stage of operations with pre-dominantly debt-funded capex in a highly fragmented decorative laminates industry

The track record of AMPL is limited as the company has recently commenced production from April 2011 and FY12 (refers to April 1 to March 31) is the first full year of operation of the company. The plant was commissioned with a delay of five months due to delay in installation of machineries. The total cost of establishing its manufacturing facility was Rs.6.87 crore which was funded through term loan of Rs.4.50 crore, equity share capital of Rs.2.00 crore and unsecured loans from promoters of Rs.0.37 crore (leading to project debt-equity ratio of 2.44 times).

Till January 25, 2012, the company has produced 2.55 lakh units of high pressure decorative laminates sheets and 0.22 lakh units of electric insulation boards. As per the provisional results for 9MFY12, AMPL earned a total operating income of Rs.11.43 crore.

Overall gearing of AMPL was high at 3.63 times as on March 31, 2011 due to predominantly debt funded project and working capital intensive nature of operations. Working capital limit utilization remained at 80% during last ten months ended January 31, 2012.

Further, the decorative laminate industry is highly fragmented and unorganized in nature as almost 50% of the market is dominated by the unorganized players, thereby putting pressure on profitability margins.

Vulnerability of margins to fluctuations in raw material prices

The main raw material used in manufacturing of laminated sheets and electric insulation board includes paper (design paper and kraft paper) and chemicals (phenol, formaldehyde, melamine, methanol and other chemicals). Since raw material costs constitute about 75% of the company's total cost of sales, any adverse change in raw material prices is likely to have a direct impact on the company's profitability. During FY11, prices of kraft paper witnessed a rise due to an increase in prices of waste kraft paper. Further, prices of chemicals like phenol and methanol are linked to crude oil prices that have seen high volatility in the past.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

The company procures kraft paper and design paper from Gujarat and Maharashtra and chemicals from Gujarat. Further, the company has deemed imports where it purchase design paper from local traders who in turn import from other countries.

Fortunes linked to the demand from the cyclical real estate sector

Demand for the decorative laminates largely comes from the real estate sector which is cyclical in nature and its fortune depends upon the overall economic conditions in the country. The industry is also sensitive to the interest rate in the economy and any adverse impact on real estate sector is likely to affect the growth rate of laminates industry. Thus, in the current macroeconomic environment wherein interest rates are high and growth is slowing down, demand arising on account of new furniture and renovated furniture may be subdued for short to medium term.

Promoter's experience in plywood, decorative laminates industry and established distribution network

AMPL is promoted by five promoters led by Mr Suresh Patel and all of them are involved in day-to-day affairs of the company. Mr Suresh Patel, Mr Valji Patel, Mr Govind Patel and Mr Prahlad Patel have more than a decade's experience in the industry through their involvement in associate concerns which are engaged in manufacturing and trading of plywood and laminated sheets. Associate concerns of promoters include M/s Anand Timber Mart (manufacturing of wooden size and trading of plywood), M/s Venus Ply Industries (manufacturing of plywood and flush doors) and M/s Sahjanand Quarry Works.

Further, AMPL is benefitted from the established marketing network of the products and contacts of the promoters with the dealers through their associate concerns. The company sells its entire production of high pressure decorative laminates and electric insulation boards through its network of dealers and distributors consisting of 10 dealers and distributors having pan India presence. The company markets its product across India with majority of revenues coming from Gujarat, Madhya Pradesh, Maharashtra, Karnataka and Rajasthan.

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