

Alfa Ica (India) Limited

February 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term / Short Term Bank Facilities	12.00	CARE BBB; Stable / CARE A3 (Triple B ; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	0.30	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	12.30 (Rs. Twelve Crore and Thirty Lakhs Only)		

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Alfa Ica (India) Limited (AII) continue to derive strength from its comfortable capital structure in absence of external long-term debt except unsecured loans infused by the promoters and relatives coupled with moderate debt coverage indicators and adequate liquidity position during FY20 (refers to period from April 1 to March 31). The ratings further, continue to derive comfort from experienced management and established relationship of AII with its customers.

The ratings, however, continue to remain constrained on account of its moderate scale of operations and profit margins along with working capital intensive nature of operations during FY20. The ratings further, continue to remain constrained due to susceptibility of AII's profit margins to volatility in its raw materials prices as well as exposure to foreign exchange fluctuation risk along with presence into highly fragmented and competitive laminate industry.

Key Rating Sensitivities

Positive Factors

- Significant growth in scale of operations with increase in PBILDT margin to more than 10%
- Managing its working capital efficiently with improvement in working capital cycle to less than 90 days
- Improvement in debt protection metrics with Total Debt / Gross Cash Accruals (TD/GCA) of less than 3x and Interest Coverage of over 5x

Negative Factors

- Decline in total operating income by more than 30% with decline in profitability
- Increase in overall gearing beyond 1x
- Elongation of operating cycle to more than 150 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

Mr. Rishi Tikmani and Ms. Pooja Tikmani (Executive Directors of the company) hold experience of more than a decade in the same line of business, while the company has an overall operational track record of more than 25 years. Due to the established presence of AII in laminate business, it has developed good relationship with its customers and suppliers.

Comfortable capital structure and moderate debt coverage indicators

Capital structure of AII continued to remain comfortable as marked by overall gearing ratio of 0.43x as on March 31, 2020 as against 0.77x as on March 31, 2019 on account of lower working capital utilization and an increase in quasi equity through infusion of subordinate unsecured loans as on March 31, 2020. As on March 31, 2020, total debt comprised of working capital borrowings and long-term unsecured loans from directors and promoters. Further, unsecured loans from directors and promoters to the tune to Rs.5.00 crore as on March 31, 2020 [Rs.3.00 crore as on March 31, 2019] have been considered as quasi equity as per bank sanction letter covenants, as the same are subordinated to bank facilities.

The debt coverage indicators of AII continued to remain moderate during FY20. Interest coverage ratio of AII remained moderate at 2.50x during FY20 [2.34x during FY19] with marginal decrease in finance charges during FY20. Furthermore, TD/GCA of AII remained moderate at 4.30x for FY20, that improved from 6.81x for FY19 due to reduction in debt level.

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

Key Rating Weaknesses**Moderate scale of operations and profitability margins during FY20**

During FY20, Total Operating Income (TOI) of AILL remained stable and moderate at Rs.57.11 crore as compared to Rs.56.50 crore during FY19. Further, the contribution of exports in the TOI remained high at around 80% during FY20. PBILDT margin of AILL remained stable and moderate at 7.25% during FY20 as compared to 7.62% during FY19. Consequently, PAT margin of AILL also remained stable at 2.16% during FY20 [2.20% during FY19]. Further, during H1FY21 (Unaudited) the company reported a TOI, PBILDT and PAT of Rs.21.47 crore, Rs.1.85 crore and Rs.54 crore respectively vis-à-vis Rs.28.89 crore, Rs.2.00 crore and Rs.0.63 crore respectively during H1FY20 (Unaudited).

Working capital intensive nature of operations

Overall operations of AILL have remained working capital intensive in nature as marked by elongated operating cycle as it has to maintain high level of inventory in the form of kraft paper and design paper along with other materials. Further, operating cycle of AILL has remained elongated at 114 days during FY20 which remained in line with 116 days during FY19.

Susceptibility of profit margins to volatility in raw material price and foreign exchange fluctuation risk

Major raw materials for the company include design papers, kraft papers, printed papers, melamine and formaldehyde. Price of melamine and formaldehyde are petrochemicals related materials and its prices are linked to crude oil prices. Hence, AILL will have to factor any deviation in crude oil prices in its product pricing and its inability to pass on the same fully to end customer may have direct impact on its profit margins.

AILL primarily caters to the overseas market and the export revenue was around 80% of TOI in FY20. On the other hand, its import constitutes about 30% of total export. Hence, the company has natural hedge to certain extent, however, the company is a net exporter and does not follow any active hedging policy which exposes its margins to fluctuation in foreign exchange rates.

Presence in highly fragmented and competitive industry

The company operates in highly fragmented and competitive laminate industry marked by presence of large number of medium sized players. The industry is characterized by low entry barrier, no inherent resource requirement constraints and easy access to customers and suppliers. Further, its demand is linked with cyclical nature of real estate industry.

Impact of COVID-19 on business operations of AILL

Due to COVID-19 induced lockdown by the Government, operations of AILL had been halted w.e.f. March 22, 2020 and the same had subsequently been resumed from April 20, 2020 after getting required permission from respective authorities. After resumption, the plant operated at around 60% of capacity during Q1FY21, and subsequently, during H1FY21 (UA) AILL reported decrease in its TOI by 25.68% y-o-y at Rs.21.47 crore [Rs.28.89 during H1FY20 (Unaudited)] as overseas buyers had requested graded shipments, as they were also facing Covid-19 issues; however; there were no cancellations of any orders.

Liquidity: Adequate

Liquidity position of AILL continued to remain adequate as marked by current ratio of 2.51x as on March 31, 2020 [1.62x as on March 31, 2019] owing to increase in inventory level coupled with a decrease in working capital borrowings as on March 31, 2020. Further, net cash flow from operating activities (CFO) of AILL further improved to Rs.6.38 crore during FY20 from Rs.1.73 crore during FY19 mainly on account of rationalization of inventory level. The unencumbered cash & bank balance was around Rs.0.34 crore as on March 31, 2020 as compared to Rs.0.12 crore as on March 31, 2019. Despite the working capital intensive nature of operations, the reliance on external working capital borrowings have remained low marked by the average and maximum fund based working capital utilization of ~38% and ~43% respectively for the past twelve months ending November, 2020. Further, GCA of AILL remained moderate at Rs.2.08 crore during FY20 as against nil schedule repayment during FY21. Furthermore, AILL has not availed moratorium for its bank facilities under COVID-19 relief package.

Analytical Approach: Standalone**Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

Promoted by Mr. Rajendra Tikmani, Ahmedabad-based (Gujarat) AILL was incorporated in 1991 and presently the company is being managed by Mr. Rishi Tikmani and Ms Pooja Tikmani, second generation of Tikmani family. AILL is engaged in manufacturing of commercial grade decorative laminate sheets which are used in furniture & fixtures. AILL caters primarily to overseas market having more than 80% of exposure in overseas markets during last three years ended FY20. The company is selling the laminates under the brand name of 'Alfaica'. AILL has established two units in Sanand for the manufacturing of laminates and has installed capacity of 21 lakh sheets per annum as on March 31, 2020. AILL has ISO 9001:2000 certification for management system as well as ISO 14001:2004 certification for environmental management system and AILL is a recognized star export house by the Govt. of India.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	56.50	57.11
PBILDT	4.30	4.14
PAT	1.25	1.23
Overall gearing (times)	0.77	0.43
Interest coverage (times)	2.34	2.50

A: Audited

Till H1FY21 (Unaudited), AILL reported TOI of Rs.21.47 crore with PAT of Rs.0.54 crore .

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	12.00	CARE BBB; Stable / CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	0.30	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (31-Dec-19)	1)CARE BBB; Stable / CARE A3 (04-Jan-19)	1)CARE BBB; Stable / CARE A3 (05-Mar-18)
2.	Non-fund-based - ST-Letter of credit	ST	0.30	CARE A3	-	1)CARE A3 (31-Dec-19)	1)CARE A3 (04-Jan-19)	1)CARE A3 (05-Mar-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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