

Alfa Ica (India) Limited

January 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	12.00	CARE BBB; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	0.30	CARE A3	Reaffirmed

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Alfa Ica (India) Limited (AIIL) continue to derive strength from experienced management and established relationship of AIIL with its customers, its comfortable capital structure in absence of any external long-term debt along with moderate debt coverage indicators in FY23 (refers to the period from April 1 to March 31) as well as H1FY24 and adequate liquidity.

The ratings, however, continue to remain constrained on account of AIIL's modest scale of operations and moderate profit margins coupled with working capital-intensive nature of its operations. The ratings are further constrained by susceptibility of AIIL's profitability to volatility in raw materials prices as well as foreign exchange fluctuation risk and its presence in a highly fragmented and competitive laminate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors:

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

Negative Factors:

- Decline in total operating income by more than 30% with decline in profitability
- Elongation of operating cycle to more than 150 days on a sustained basis
- Any major debt-funded capex or increase in working capital requirement leading to deterioration in overall gearing of over 1.00x on sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity shall continue to benefit from its experienced directors, established customer relationship and brand name in the industry which shall enable the company to sustain its financial risk profile over the medium term.

Detailed description of the key rating drivers

Key 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 two and a half decades. Due to established presence of AIIL in laminate business, it has developed good relationship with its customers and suppliers.

Comfortable capital structure and moderate debt coverage indicators

As on March 31, 2023, capital structure of AIIL continued to remain comfortable marked by overall gearing of 0.40x as compared to 0.53x as on March 31, 2022. The improvement was due to lower outstanding working capital borrowings. Tangible net worth increased marginally on the back of accretion of profit into reserves and continued to remain modest at Rs.25.09 crore as on March 31, 2023. TOL/TNW was also comfortable at 0.57x as on March 31, 2023 [PY:0.88x]. Furthermore, unsecured loans from directors and promoters of Rs.5.00 crore have been subordinated to bank debt in line with covenants of the sanction letter and hence has been considered as quasi equity. AIIL's overall gearing continued to remain comfortable at 0.35x as on September 30, 2023 [0.42x as on September 30, 2022].

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The debt coverage indicators of AIIL continued to remain moderate in FY23 with Interest coverage ratio and total debt / GCA ratio (TDGCA) of 2.83x [PY: 3.05x] and 3.94x [PY:4.65x] respectively. In H1FY24 as well, debt coverage indicators remained stable with interest coverage and TDGCA of 2.95x and 3.76x respectively.

Key Rating Weaknesses

Modest scale of operations with moderate profitability

AIIL's total operating income (TOI) moderated by ~19% Y-o-Y and remained modest at Rs.65.18 crore in FY23 as compared to Rs.80.43 crore during FY22. The same was owing to lower sales volume with subdued export demand mainly from Europe as well as lower sales realization. In H1FY24, TOI decreased by 7% Y-o-Y and remained at Rs.34.11 crore due to decline in sales realization while sales volume increased.

AIIL's PBILDT margin increased by 107 bps Y-o-Y and remained moderate at 7.08% in FY23 mainly on account of lower raw material cost incurred during the period. PAT margin of the company remained relatively stable at 2.24% (2.02% in FY22). In H1FY24, profitability of AIIL continued to remain stable with PBILDT margin and PAT margin of 6.65% and 2.14% respectively [6.19% and 1.88% respectively in H1FY23].

Working capital intensive nature of operations

Overall operations of AIIL 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, majority of the papers are imported which have lead time ranging from two months to six months from the date of placement of order. Hence, to take care of customer's specific requirement in a timely manner, company has to keep raw material (mainly papers) readily available at their site which increases raw material inventory of the company. During FY23, operating cycle of the company elongated to 128 days (93 days in FY22) on the back of increase in collection and inventory period. However, gross current assets days of the company remained stable at 140 days during FY23 [PY:139]. Despite the working capital intensive nature of operations, reliance on external working capital borrowings remained moderate marked by the average fund based working capital limit utilization of ~52% for the trailing twelve months ending October, 2023.

Susceptibility of profitability to volatility in raw material prices 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, being petrochemical related material, are linked to crude oil prices. Hence, AIIL will have to factor any volatility 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 margin.

AIIL primarily caters to the overseas market and the export revenue was around 75% of TOI in FY23. On the other hand, its import constituted ~30% of total purchase over last five years ended FY23. 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 profitability to fluctuation in foreign exchange rates. During FY23, AIIL reported net forex gain of Rs.0.54 crore as against net forex gain of Rs.0.45 crore in FY22.

Presence in highly fragmented and competitive industry

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

Liquidity: Adequate

Liquidity of AIIL was adequate marked by moderate utilization of its working capital limit, moderate cash accruals and positive cash flow from operations (CFO) against nil scheduled debt repayment.

CFO of the company increased significantly from negative Rs.1.26 crore in FY22 to positive Rs.5.83 crore in FY23 due to release of funds from working capital. The company is expected to generate GCA of Rs.2.7-3.3 crore against nil scheduled debt repayment obligation in near term. Also, average fund based working capital limit utilization was moderate at ~52% for the trailing twelve months ending October 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

- [Policy on default recognition](#)
- [Financial Ratios – Non financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Manufacturing Companies](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

About the company

Promoted by Mr. Rajendra Tikmani, Ahmedabad-based (Gujarat) AIIL (CIN: L20100GJ1991PLC016763) was incorporated in 1991 and presently the company is being managed by Mr.Rishi Tikmani and Ms Pooja Tikmani, second generation of Tikmani family. AIIL is engaged in manufacturing commercial grade decorative laminate sheets which are used in furniture & fixtures. AIIL caters primarily to overseas market with more than 70% of sales from exports. The company is selling the laminates under the brand name of 'Alfaica'. AIIL 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, 2023. AIIL has ISO 9001:2000 certification for management system as well as ISO 14001:2004 certification for environmental management system and AIIL is a recognized star export house by the Govt. of India.

Brief Financials (Rs. crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	80.43	65.18	34.11
PBILDT	4.84	4.62	2.27
PAT	1.63	1.46	0.73
Overall gearing (times)	0.53	0.40	0.35
Interest coverage (times)	3.05	2.83	2.95

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST *	12.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (30-Dec-22)	1)CARE BBB; Stable / CARE A3 (28-Dec-21)	1)CARE BBB; Stable / CARE A3 (02-Feb-21)
2	Non-fund-based - ST-Letter of credit	ST	0.30	CARE A3	-	1)CARE A3 (30-Dec-22)	1)CARE A3 (28-Dec-21)	1)CARE A3 (02-Feb-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

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

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Kalpesh Patel Director CARE Ratings Limited Phone: +91-79-4026 5611 E-mail: Kalpesh.patel@careedge.in</p> <p>Name: Anuja Parikh Assistant Director CARE Ratings Limited Phone: +91-79-4026 5616 E-mail: anuja.parikh@careedge.in</p> <p>Name: Harsh Desai Lead Analyst CARE Ratings Limited E-mail: harsh.desai@careedge.in</p>
--	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in