

Alfa Ica (India) Limited

December 28, 2021

Ratings

Facilities	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 facilities in Annexure -1

Detailed Rationale & 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 coupled with its comfortable capital structure in absence of external long-term debt along with moderate debt coverage indicators in FY21 (refers to period from April 1 to March 31) as well as H1FY22 (Unaudited) and adequate liquidity.

The ratings, however, continue to remain constrained on account of its modest scale of operations and moderate profit margins coupled with working capital-intensive nature of its operations. The ratings further, continue to remain constrained due to susceptibility of AIIL'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.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- 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- Factors that could lead to negative rating action/downgrade

- 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 two and a half decades. Due to the 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

Capital structure of AIIL continued to remain comfortable as marked by its overall gearing ratio of 0.36x as on March 31, 2021 as against 0.43x as on March 31, 2020 on account of lower unsecured loans as on March 31, 2021. It continued to remain comfortable at 0.63 times as on September 30, 2021 (UA), though it increased marginally over the previous year owing to higher working capital borrowings. Further, unsecured loans from directors and promoters to the tune of Rs.5.00 crore as on March 31, 2021 as well as September 30, 2021 (UA) 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 AIIL continued to remain moderate marked by interest coverage ratio and total debt / GCA ratio of 2.82 times [PY:2.50 times] and 3.28 times [PY:4.30 times] respectively in year ended on March 31, 2021. Debt coverage indicators of the company continued to remain moderate in H1FY22 (UA).

Key Rating Weaknesses

Modest scale of operations in FY21 albeit improved in H1FY22 (UA) with moderate profitability

During FY21, total operating income (TOI) of AIIL continued to remained modest at Rs.55.81 crore which is in line with the previous year, however, it improved by 61% Y-o-Y in H1FY22 (UA) driven by volume growth coupled with increased price realization as compared to H1FY21 (UA) which was adversely impacted by Covid-19 induced disruptions.

AIIL's PBILDT margin has remained relatively stable at 7.10% during FY21 [7.25% during FY20]. Subsequently, PAT margin of the company also remained stable at 2.54% in FY21 [2.16% in FY20] owing to stable PBILDT margin. However, PBILDT

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

reduced by 225 bps to 6.37% in H1FY22 (UA) [8.62% in H1FY21 (UA)] owing to significant increase in freight cost during the period. Operating margins are expected to rebound in H2FY22 as AIIL is gradually passing increased cost to its customers.

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. As a result, operating cycle of AIIL has continued to remain elongated at 108 days during FY21 [114 days during FY20]. Despite the working capital-intensive nature of operations, the company's reliance on external working capital borrowings have remained low.

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, AIIL 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.

AIIL primarily caters to the overseas market and the export revenue was around 86% of TOI in FY21. On the other hand, its import constitutes about 40% of total export in last four years ended in FY21. 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.

Liquidity: Adequate

Liquidity position of AIIL continued to remain adequate as marked by low utilization of its working capital utilization during last twelve months ended in September, 2021 at 50% coupled with moderate current ratio of 1.63x as on March 31, 2021, though it reduced from 2.51x as on March 31, 2021 owing to higher working capital borrowings and creditors as on March 31, 2021. Cash profit remained at Rs.2.38 crore, however, scheduled debt repayment obligation remained nil for FY22-FY24. Cash flow from operating activities (CFO) of the company decreased from Rs.6.38 crore in FY20 to Rs.3.47 crore in FY21 owing to increase in inventory level as on March 31, 2021.

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) 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 of commercial grade decorative laminate sheets which are used in furniture & fixtures. AIIL caters primarily to overseas market having more than 80% of exposure in overseas markets during last three years ended FY21. 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, 2021. 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)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	57.11	55.81	34.54
PBILDT	4.14	3.96	2.20
PAT	1.23	1.42	0.75
Overall gearing (times)	0.43	0.36	0.63
Interest coverage (times)	2.50	2.82	3.10

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (02-Feb-21)	1)CARE BBB; Stable / CARE A3 (31-Dec-19)	1)CARE BBB; Stable / CARE A3 (04-Jan-19)
2	Non-fund-based - ST-Letter of credit	ST	0.30	CARE A3	-	1)CARE A3 (02-Feb-21)	1)CARE A3 (31-Dec-19)	1)CARE A3 (04-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation	
A. Financial covenants	AIIL to maintain followings:	
	Covenant	Threshold
	Unsecured loans from Directors and promoters	=Rs.5 crore
B. Non financial covenants	1. Effect any drastic change in their management setup.	

Annexure-4: Complexity level of various instruments rated for this Company

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

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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