

## Alfa Ica (India) Limited

December 30, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	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
<b>Total Bank Facilities</b>	<b>12.30</b> <b>(₹ Twelve Crore and Thirty Lakhs Only)</b>		

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 FY22 (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 growing albeit 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 has continued to remain comfortable marked by overall gearing ratio of 0.53x as on March 31, 2022 as compared to 0.36x as on March 31, 2021 due to higher working capital borrowings. Tangible net worth increased marginally on the back of accretion of profits into reserves to Rs.23.61 crore as on March 31, 2022. TOL/TNW also remained comfortable at 0.88 times as on March 31, 2022. AIIL's overall gearing continued to remain comfortable at 0.42 times as on September 30, 2022 (UA) [0.63 times as on September 30, 2021 (UA)]. Unsecured loans from directors and promoters of Rs.5.00 crore as on March 31, 2022 has been considered as quasi equity in line with bank sanction letter covenants, as the same are subordinated to bank facilities.

The debt coverage indicators of AIIL continued to remain moderate in FY22. Interest coverage ratio and total debt / GCA ratio of the company remained at 3.05 times and 4.65 times respectively in year ended on March 31, 2022. Debt coverage indicators further remained moderate in the half year ended on September 30, 2022 (UA).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Key Rating Weaknesses

**Growing albeit modest scale of operations with moderate profitability during FY22:** During FY22, AIIL's total operating income (TOI) grew by ~44% Y-o-Y, though continued to remained modest at Rs.80.43 crore. The growth was mainly to post-covid-19 rebound in sales volume in domestic as well as export market coupled with increased price realization in tandem with increased raw material and freight cost. TOI remained stable at Rs.36.69 crore in H1FY23 (UA) which was in line with H1FY22 (UA).

Operating margin of AIIL as marked by its PBILDT margin decreased marginally by 108 bps Y-o-Y and remained at 6.01% mainly on account of significant increase in freight cost coupled with marginal increase in proportionate raw material cost which company was not able to fully pass on to its customers. PAT margin of the company remained relatively stable at 2.02% during FY22 owing to proportionately lower interest and depreciation expense in FY22. In H1FY23 (UA), profitability of AIIL remained stable as marked by PBILDT margin and PAT margin of 6.19% and 1.88% respectively [6.02% and 2.05% respectively in H1FY22 (UA)]. Going forward, in near term amidst inflationary scenario impacting global demand, TOI is expected to remain stable with PBILDT margins to remain in line in range of 5%-7% with company focusing on increasing geographical presence.

**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 FY22, operating cycle of the company improved on the back of decrease in collection and inventory period, though remained elongated at 93 days [PY: 108]. Gross Current Assets of the company remained at 139 days during FY22.

**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 85% of TOI in FY22. On the other hand, its import constitutes about 40% of total export in last four years ended in FY22. 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. The company is a net exporter and does not follow any active hedging policy. During FY22, AIIL reported net forex gain of Rs.0.45 crore as against net forex gain of Rs.0.63 crore in FY21.

**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 moderate utilization of its working capital utilization during last twelve months ended in November, 2022 at ~67% coupled with moderate current ratio of 1.54x as on March 31, 2022, though it marginally reduced from 1.63x as on March 31, 2021 owing to higher working capital borrowings as on March 31, 2022. Cash profit remained at Rs.2.67 crore, however, scheduled debt repayment obligation remained nil for FY23-FY25. Cash flow from operating activities (CFO) of the company decreased from Rs.3.46 crore in FY21 to negative Rs.1.26 crore in FY22 owing to increase in receivables and inventory level as on March 31, 2022 as compared to March 31, 2021 in tandem with increased TOI.

**Analytical Approach:** Standalone

### 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](#)

### 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 FY22. 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, 2022. 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)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	55.80	80.43	36.69
PBILDT	3.95	4.84	2.27
PAT	1.42	1.63	0.69
Overall gearing (times)	0.36	0.53	0.42
Interest coverage (times)	2.81	3.05	2.73

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 (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 of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (28-Dec-21)	1)CARE BBB; Stable / CARE A3 (02-Feb-21)	1)CARE BBB; Stable / CARE A3 (31-Dec-19)
2	Non-fund-based - ST-Letter of credit	ST	0.30	CARE A3	-	1)CARE A3 (28-Dec-21)	1)CARE A3 (02-Feb-21)	1)CARE A3 (31-Dec-19)

\* Long Term / Short Term

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

Bank Facilities	Detailed explanation	
<b>A. Financial covenants</b>	<b>AIIL to maintain followings:</b>	
	<b>Covenant</b>	<b>Threshold</b>
	Unsecured loans from Directors and promoters	=Rs.5 crore
<b>B. Non financial covenants</b>		
	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 instruments:** CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at [www.careedge.in](http://www.careedge.in). Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

**Contact us**
**Media Contact**

Name: Mradul Mishra  
 Phone: +91-22-6837 4424  
 E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst Contact**

Name: Akhil Goyal  
 Phone: +91-85111 90015  
 E-mail: [akhil.goyal@careedge.in](mailto:akhil.goyal@careedge.in)

**Relationship Contact**

Name: Deepak Prajapati  
 Phone: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careedge.in](mailto:deepak.prajapati@careedge.in)

**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](http://www.careedge.in)**