

Alfa Ica (India) Limited

December 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities/ 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 facilities	12.30 (Rupees Twelve crore and Thirty lakh 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 solvency position in absence of external long-term debt except unsecured loan infused by the promoters and relatives coupled with moderate debt coverage indicators. The ratings also derive comfort from experienced management and established relationship with its customers.

The ratings, however, continue to remain constrained on account of moderate scale of operations, moderate profit margins and working capital intensive nature of operations in FY19 (FY refers to the period from April 1 to March 31). The ratings are further constrained due to susceptibility of profit margins to volatility in raw material prices and foreign exchange fluctuation risk along with presence into highly fragmented laminate industry.

Key Rating Sensitivities

Positive Factors

- Growth in its scale of operations by more than 40% on sustained basis backed by increase in capacity utilization and price realization
- Managing its working capital efficiently with improvement in working capital cycle of less than 90 days
- Improvement in debt protection metrics with TD/GCA of less than 3 times and interest coverage of greater than 5 times

Negative Factors

- Decline in scale of operations by more than 20% in comparison to envisaged level along with decline in operating profit margins below 5% on sustained basis
- Higher than envisaged debt leading to deterioration in capital structure with above unity overall gearing
- Elongation of operating cycle to more than 150 days on a sustained basis leading to high reliance on working capital borrowings and stretched liquidity position of AII.

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 and the company has overall track record of more than 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 solvency position and moderate debt coverage indicators

As on March 31, 2019 the solvency position of AII has continued to remain comfortable as marked by overall gearing of 0.77 times as compared to 0.60 times as on March 31, 2018. The marginal deterioration in leverage was on back of increase in working capital utilization as on March 31, 2019.

The debt coverage indicators have also continued to remain moderate in FY19. Interest coverage ratio of AII deteriorated marginally over the previous year, but continued to remain moderate at 2.34 times during FY19 as compared to 2.62x in FY18 on account of increase in finance charge during FY19. Furthermore, total debt to gross cash accruals (TD/GCA) has remained at 6.81 years as on March 31, 2019 as compared to 5.78 years as on March 31, 2018 due to increase in the debt level as on March 31, 2019.

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

Key Rating Weaknesses**Moderate scale of operations**

During FY19, TOI (Total Operating Income) of AILL remained stable and continued to stand moderate at Rs.56.50 crore as compared to Rs.57.59 crore during FY18. Further, export proportion remained at around 79% of total sale during FY19 as compared to around 83% during FY18.

Moderate profit margins

The PBILDT margin of AILL improved marginally over the previous year and remained at 7.62% during FY19 as compared to 6.56% in FY18 on account of increase in sale proportion of high value added thick laminates during FY19. However, the PAT margin of the company continued to remain stable during FY19 at 2.20% same as previous year due to higher finance charges during FY19 as compared to the previous year.

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 has elongated to 116 days in FY19 from 96 days during FY18 on account of increase in inventory holding period and collection period during FY19 due to liberal credit terms offered to its customers owing to challenging economic scenario.

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 79% of gross sales in FY19. On the other hand, its import constitutes about 39% 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 the 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 AILL remained adequate as marked by current ratio of 1.62x as on March 31, 2019 as against 1.85x as on March 31, 2018 on account of increase in working capital borrowings as on balance sheet date. Further, net cash flow from operating activities turned into positive and remained at Rs.1.73 crore during FY19 as compared to negative Rs.0.53 crore during FY18. Furthermore, around 50% of working capital facilities remained unutilized during previous twelve months ended in October, 2019 as compared to nil schedule repayment during FY20.

Analytical Approach: Standalone**Applicable Criteria**

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

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

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

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

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 FY19. 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, 2019. 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)	FY18 (A)	FY19 (A)
Total operating income	57.59	56.50
PBILDT	3.78	4.30
PAT	1.18	1.25
Overall gearing (times)	0.60	0.77
Interest coverage (times)	2.62	2.34

A: Audited

Till H1FY20 (UA), AILL has achieved TOI of Rs.28.89 crore with PBILDT and PAT of Rs.1.90 crore and Rs.0.63 crore respectively.

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/PC/Bill Discounting	-	-	-	12.00	CARE BBB; Stable / CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	0.30	CARE A3

Annexure 2: Rating History for 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	12.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (04-Jan-19)	1)CARE BBB; Stable / CARE A3 (05-Mar-18)	1)CARE BBB; Stable / CARE A3 (09-Feb-17)
2.	Non-fund-based - ST-Letter of credit	ST	0.30	CARE A3	-	1)CARE A3 (04-Jan-19)	1)CARE A3 (05-Mar-18)	1)CARE A3 (09-Feb-17)

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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