

Alfa Ica (India) Limited

January 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating 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 and moderate debt coverage indicators. The ratings also derive comfort from experienced management.

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 FY18 (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.

AII's ability to increase its scale of operations and improvement in profitability while efficiently managing the working capital and foreign exchange fluctuation risk would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable solvency position and moderate debt coverage indicators

As on March 31, 2018 the solvency position has continued to remain comfortable marked by overall gearing at 0.60x as on March 31, 2018 as compared to 0.64x as on March 31, 2017. The sight improvement in leverage was on back of increase in the net worth base.

The debt coverage indicators have also remained stable in FY18 and continued to remain moderate. Interest coverage ratio stood stable at 2.62x during FY18 as compared to 2.59x in FY17 mainly due to marginal increase in operating profit. Further TD/GCA has also remained stable at 5.78 years as on March 31, 2018 as against 6.07 years as on March 31, 2017 due to increase in the GCA level.

Experienced management

Mr. Rishi Tikmani and Ms. Pooja Tikmani 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.

Key Rating Weaknesses

Moderate scale of operations

During FY18, TOI (Total Operating Income) of AII registered growth of 13.61% over the previous year however, continued to stand moderate at Rs.57.59 crore as compared to Rs.50.69 crore in FY17. Growth in TOI was on the back of increase in demand from the export market leading to higher sales volumes.

Moderate profit margins

The PBILD margin remained stable as compared with previous year and stood at 6.56% during FY18 as compared to 6.74% in FY17. Consequently, the PAT margin has also remained stable during FY18 at 2.05% as compared to 1.90% during FY17 due to marginally lower depreciation and interest expense as a percentage of TOI as compared to previous year.

Working Capital Intensive nature of operations

Overall operations of AII 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. However operating cycle has marginally improved to 96 days in FY18 as compared to 110 days in FY17 on account of improvement in inventory holding period along with increase in average creditor's period. Current ratio stood stable at 1.85x as on

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

March 31, 2018 as against 1.81x as on March 31, 2017. Further, cash & bank balance remained at Rs.0.17 crore as on March 31, 2018.

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 like petrochemicals related materials price 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 gross sales in FY18. 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.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

[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 FY18. 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, 2018. 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)	FY17 (A)	FY18 (A)
Total operating income	50.69	57.59
PBILDT	3.42	3.78
PAT	0.97	1.18
Overall gearing (times)	0.64	0.60
Interest coverage (times)	2.59	2.62

A: Audited

Till H1FY19 (UA), AILL has achieved TOI of Rs.29.19 crore with PBILDT and PAT of Rs.2.00 crore and Rs.0.48 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

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:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	12.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (05-Mar-18)	1)CARE BBB; Stable / CARE A3 (09-Feb-17)	1)CARE BBB / CARE A3 (19-Jan-16)
2.	Non-fund-based - ST-Letter of credit	ST	0.30	CARE A3	-	1)CARE A3 (05-Mar-18)	1)CARE A3 (09-Feb-17)	1)CARE A3 (19-Jan-16)

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