Century Extrusions Ltd

January 07, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long-term Bank Facilities	61.25	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	15.60	**CARE A3 (A Three)**	**Assigned**
Total facilities	**76.85 (Rs. Seventy six crore and eighty five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Century Extrusions Limited (CEL) derive comfort from the long experience of the promoters in the industry, established market presence and customer base, satisfactory capacity utilisation of the plant and improving trend in profitability margins with moderate debt coverage indicators.

However, the ratings are constrained by the working capital intensive nature of business, moderate capital structure, project implementation risk, susceptibility of profitability to volatility in raw material prices and presence in a competitive industry marked by limited value addition in the manufacturing process.

Ability of the company to effectively manage its working capital requirements, successful implementation of modernization plan along with improvement in scale of operation, profitability and capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long experience of the promoters in aluminum industry: The group was started by Late Mr. M.P. Jhunjhunwala, through Century Aluminium Manufacturing Company Ltd (CAMCO) in 1974, which is engaged in manufacturing of secondary aluminium alloys and supplying to OEMs and auto industry. CEL commenced operation in 1991. The company is presently headed by Mr. Vikram Jhunjhunwala, who has extensive experience of around 25 years in aluminium products business.

Established market presence and customer base: The products of the company are used in the auto industry, power sector, engineering and manufacturing industry, architectural works and defense sector among others. The company has six branch offices (Bangalore, Chennai, Delhi, Kanpur, Kolkata & Mumbai) located across the country to cater to the customers throughout the country. Further, the company has a diversified set of customers with top 15 customers accounting for ~27% of sales in FY18 (28% in FY17 and 26% in FY16). Major customers include large OEMs and reputed corporates.

Satisfactory capacity utilization: The capacity utilization (CU) of CEL has improved over the past three years on the back of higher demand from the user industries. The CU of CEL is expected to improve further, as the company has started implementing a modernization plan which will enable the company to operate at higher capacity due to lower break-downs. It achieved CU of 81.85% in FY18 as against 72.65% in FY17. In H1FY19, CU was 77.72%.

Improving trend in profitability margins, though the margins continue to remain moderate: The operating income of the company has increased consistently over the past three years due to higher sales volume (on the back of higher demand) along with higher sales realization per MT (due to increase in aluminium prices). The PBILDT margin has remained moderate due to low value added nature of the product. The margins are also impacted due to high volatility in aluminum prices. However, the PBILDT margin has witnessed an improving trend quarter-on-quarter since Q4FY18. With increase in absolute level of PBILDT and relatively stable interest expense, the interest coverage ratio improved in FY18 and H1FY19.

Key Rating Weaknesses

Moderate capital structure: The overall gearing of CEL as on Mar.31, 2018 was moderate at 1.62x with borrowings mainly comprising working capital debt. However, it is expected to deteriorate going forward due to availment of debt for the ongoing modernization project and higher working capital requirement. Total debt/GCA remained moderate at 9.12x as on Mar.31, 2018.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Working capital intensive nature of operations: CEL's business is working capital intensive in nature as it has to offer 30-40 days credit period to its customers due to intense competition in the industry and it has to maintain 1 to 2 months inventory (raw material and WIP) to execute the bulk orders. Further, the aluminium billets (major RM) are procured against LC.

Project Implementation risk relating to upgradation cum modernization capex plan: CEL has undertaken a capital expenditure project towards modernisation of its manufacturing facility to improve its productivity with a total project cost of Rs.14.05 crore, proposed to be funded through a debt of Rs.10.40 crore and internal accruals of Rs.3.65 crore. The debt portion has been tied up and Rs.4.5 crore has been disbursed till September 30, 2018. Completion of the capex within the envisaged timeline and cost and deriving benefits therefrom is a key rating sensitivity.

Susceptibility of profitability to volatility in raw material price: Aluminium ingots and billets are the key raw material for CEL. CEL procures these materials at the price prevailing on the date of its dispatch. The aluminium industry is cyclical in nature with prices for the commodity driven by changing demand and supply conditions in the market which also has strong linkages to the global market. This results in risk of price fluctuation on the inventory of raw materials as well as finished goods. The overall working capital intensity of CEL's business is governed to a large extent by its raw material inventory which in turn is governed by its order execution cycle.

Presence in a competitive and limited value addition aluminium extrusion industry: CEL operates on a relatively moderate scale of operations in a fragmented and competitive aluminium extrusion industry which is characterized by the presence of numerous players. The entry barrier in the industry is low considering relatively low investments required in fixed assets. Hence, aluminium extrusion players have very limited scope to pass on hike in input costs to its customers. Furthermore, a large portion of demand for aluminium extrusion products comes from the cyclical construction and automobile industry making it vulnerable to economic cycles. However, CEL is one of the few organised players within the industry with diversified products.

Liquidity
The liquidity position of the company is moderate with low level of term debt repayment obligation in FY19 and average utilisation of about 85% of the working capital limits in the 12 months ending September 2018.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1988, CEL is part of the Kolkata based Century Group promoted by the Jhunjhunwala family. The company commenced its operations from 1991. The company is engaged in manufacturing of aluminium-extruded products, which are used in the auto industry, power sector, engineering and manufacturing industry, architectural works and defense sector among others. The company has its operating unit in Kharagpur (West Bengal) with installed capacity of 15,000 tonne per annum.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	180.55	235.92
PBILDT	9.87	11.78
PAT	1.35	3.71
Overall gearing (times)	1.64	1.62
Interest coverage (times)	1.42	1.85

A: Audited

Status of non-cooperation with previous CRA: CRISIL had suspended its ratings on the bank facilities of the company on account of non-cooperation by the company vide its PR dated June 04, 2015
Rating History for 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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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-Cash Credit	-	-	-	38.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	Jan 2025	15.55	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	11.00	CARE A3
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.10	CARE A3
Fund-based - LT-Vendor financing	-	-	-	7.70	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	4.50	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 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-Cash Credit	LT	38.00	CARE BBB-; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	15.55	CARE BBB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	11.00	CARE A3	-	-	-	-
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.10	CARE A3	-	-	-	-
5.	Fund-based - LT-Vendor financing	LT	7.70	CARE BBB-; Stable	-	-	-	-
6.	Non-fund-based - ST-Bank Guarantees	ST	4.50	CARE A3	-	-	-	-

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