Hind Aluminium Industries Limited

June 10, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	172.72	**CARE A-; Negative (A Minus; Outlook: Negative)**	**Revised from CARE A-; Stable (A Minus; Outlook: Stable)**
Long/Short Term Bank Facilities	9.90	**CARE A-; Negative/ CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)**	**Revised from CARE A-; Stable/ CARE A2+ (A Minus; Outlook: Stable/ A Two Plus)**
Short term Bank Facilities	91.44	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**274.06 (Rs. Two hundred Seventy Four crore and Six lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The outlook assigned to the bank facilities of Hind Aluminium Industries Limited (HAIL) is revised to 'Negative' from 'Stable' on account of expected continual stress on the margin profile of the company owing to slowdown of demand for aluminium conductors and intense competition in the industry and resultant impact on the debt coverage indicators. The outlook may be revised to 'Stable' if the operating performance improves on a sustainable basis resulting in improvement in overall margins and debt coverage indicators.

The ratings continues to derive strength from the promoters experience, established market position of the group in the aluminium wire rod and conductor industry, longstanding relationship with suppliers/customers, and healthy order book position.

The rating strengths are however, tempered by decline in sales in FY19 (provisional; refers to the period April 1 to March 31) owing to slowdown in demand for aluminium conductors albeit resulting in reduced reliance on working capital bank borrowings, thin profitability margins due to competitive nature of industry with limited value addition, exposure to volatility in commodity prices/ foreign exchange rates, weak debt coverage indicators with working capital intensive nature of operations and the cyclical nature of the industry.

The ability of HAIL to improve its profitability margins in the scenario of volatility in raw material prices whilst scaling of operations as envisaged along with effective working capital cycle management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters and established market position:

The promoters owing to their presence in the aluminium and aluminium alloys industry for more than three decades have developed end-to-end understanding about the functioning of the conductors and aluminium wire rods industry.

Long standing relationship with customers and suppliers

HAIL majorly offers its services to reputed clients (Power Grid Corporation of India Limited (PGCIL), Southern Power Distribution Co. of Telangana Ltd., Northen Power Distribution Co. of Telangana Ltd., M P Madhya Kshetra Vidyut Vitran Co. Ltd., Bajaj Electricals Limited, etc.) and has been serving most of these clients over the last nine years. This helps the company in securing repeat orders over the years. Hindalco Industries Ltd is key raw material supplier for over three decades.

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

Healthy order book position

HAIL has a healthy order book position of 2approximately Rs.170 crore as on June 7, 2019. Furthermore, the company is in advanced discussion with several customers for orders worth Rs.100 crore which provides near term visibility.

Adequate liquidity position

The annual repayment for FY20 is around Rs.1 crore. As on March 31, 2019, the free cash and bank balance is around Rs.0.22 crore. The unutilized portion of fund based working capital bank limit of Rs.168 crore is around 50% since January 2019 (as confirmed by the management). Thus, adequate liquidity is available for repayment of term debt in view of expected gross cash accruals for FY20 and other avenues available with the company.

Key Rating Weaknesses

De-growth in sales in FY19

The company's business is tender based. The company receives orders from power grids/electricity board, and private players. The net sales (net of goods and service tax, and excise duty) declined in FY19 to Rs.555.40 crore from Rs.609.27 crore in FY18 majorly on account of decline in aluminum prices in FY19 and shift/cancellation of few orders to FY20 due to overall slowdown in aluminium conductors business.

Thin profitability margins

The profit before interest, depreciation, and tax (PBILDT) margin reduced 3.69% in FY19 from 4.54% in FY18 owing to pressure on margin due to intense competition in the market, majority of orders being received from private players (around 40%) wherein overall margin profile is lower, and hedging loss incurred of Rs.2.13 crore for orders shifted/cancelled in FY19. Consequently, profit after tax (PAT) margin declined to 0.43% in FY19 from 1.24% in FY18. Although, the profitability margins are expected to improve in FY20, they will still remain thin on account of low value addition.

Weak debt coverage indicators

The total debt outstanding reduced as on March 31, 2019 as against corresponding period owing to reduced scale of operations resulting in reduced reliance on working capital bank borrowings. The overall gearing continued to be at comfortable level of 1.11 times as on March 31, 2019. However, PBILDT interest coverage ratio and total debt/gross cash accruals deteriorated to 1.50 times and 14.44 times in FY19 from 2.10 times and 10.31 times in FY18 respectively owing to overall impact on the profitability of the company in FY19 as explained above.

Working capital intensive nature of operations

HAIL's working capital intensity is reflected by relatively high operating cycle of around 2 months. HAIL provides credit period of around two months to its customers. The raw material is mainly procured from Hindalco Industries Ltd who provide credit period of around one month. However, the utilization of fund based limits since January 2019 is around 50% (as confirmed by the management).

Profitability highly sensitive to economic cycle and volatility in commodity prices

Aluminium being the key raw material used in the manufacturing process, the aluminium wire rods and conductors prices also move in tandem with aluminium metal prices. The company receives orders from power grids/electricity boards and other private players. The orders received are for a period of 6-10 months. The purchases in the company are order based. The orders received from power grids/electricity boards include price variation clauses. The orders received from private players are majorly fixed price contracts and to safeguard against price fluctuation the company opts for commodity hedging mechanism on LME/MCX. Thus, company's profitability is safeguarded to certain extent.

Analytical approach: CARE has adopted consolidated approach from FY18 onwards. The same is on account of commencement of commercial operations its subsidiary company Hind Aluminium Industries (Kenya) Ltd in FY18 which is in similar line of business, common management and fungible cash flows.

Applicable Criteria
[Criteria on assigning Outlook and credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[CARE's methodology for – Manufacturing companies]

About the Company
Established in 1973 by Mr. Lalit Daga, the Associated Group manufactures aluminum wire rods, which are used to make conductors and cables. As on March 31, 2019, the promoter group holds 62.12% equity stake in HAIL. The business is carried out by its two companies, the flagship company, Hind Aluminium Industries Ltd (HAIL) incorporated in 1987 and Associated Aluminium Industries Private Limited (AAIPL – rated CARE BBB+; Stable / CARE A2).
HAIL, currently has an installed capacity to manufacture 60,000 Tonnes per annum (TPA) of aluminum conductors. Furthermore, the company also has an aluminium rod manufacturing facility with an installed capacity of 29,000 TPA. HAIL has two Wind Turbine Generators (WTG) of total 2.75 mega watts (MW) at Nandurbar & Sangli in Maharashtra and four Solar Power plants of 1.43 MW at Pune – Maharashtra, Bengaluru –Karnataka, Rewari – Haryana and Alwar – Rajasthan. For its wind turbine power generation, HAIL has a Power Purchase Agreement (PPA) with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for complete purchase of its generation.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov)
Total operating income	710.47	559.56
PBILDT	32.24	20.65
PAT	8.84	2.38
Overall gearing (times)	1.62	1.11
Interest coverage (times)	2.10	1.50

*A: Audited; *as per abridged results published on BSE website*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the bank facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	9.90	CARE A-; Negative / CARE A2+
Fund-based - LT-Term Loan	-	-	FY23	4.72	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	168.00	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	91.44	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Dates & Ratings assigned in 2019-2020	Dates & Ratings assigned in 2018-2019	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	9.90	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Dec-18)	1)CARE A-; Stable / CARE A2+ (13-Nov-17) 2)CARE A-; Stable / CARE A2+ (21-Apr-17)	1)CARE A- / CARE A2+ (02-May-16)
2.	Fund-based - LT-Term Loan	LT	4.72	CARE A-; Negative	-	1)CARE A-; Stable (31-Dec-18)	1)CARE A-; Stable (13-Nov-17) 2)CARE A-; Stable (21-Apr-17)	1)CARE A- (02-May-16)
3.	Fund-based - LT-Cash Credit	LT	168.00	CARE A-; Negative	-	1)CARE A-; Stable (31-Dec-18)	1)CARE A-; Stable (13-Nov-17) 2)CARE A-; Stable (21-Apr-17)	1)CARE A- (02-May-16)
4.	Non-fund-based - ST-BG/LC	ST	91.44	CARE A2+	-	1)CARE A2+ (31-Dec-18)	1)CARE A2+ (13-Nov-17) 2)CARE A2+ (21-Apr-17)	1)CARE A2+ (02-May-16)

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 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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