Hind Aluminium Industries Limited

November 26, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long-term Bank Facilities	144.85 (Reduced from 206.65)	CARE BBB; Negative (Triple B; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	48.00 (Reduced from 85.00)	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	**192.85 (Rs. One Hundred Ninety-Two Crore and Eighty-Five Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Hind Aluminium Industries Limited (HAIL) factors in continuous and sharp decline in scale of operations since FY20, continuous dampening of profitability, small order book position on account of sluggish demand for the aluminium conductors, project delays and impact of COVID.

The ratings derive strength from the vast experience of promoters in the industry, established market position of the group in aluminium wire, rod & conductor industry as well as HAIL's longstanding relationship with suppliers/ customers, timely infusion of funds by the promoters resulting in adequate liquidity.

The ratings are however constrained by exposure to volatility in commodity prices/ foreign exchange rates, supplier concentration risk as well as cyclical nature of the industry.

Rating Sensitivities

Positive Factors

- Sustained increase in scale of operations by atleast 40% from FY20 levels on account of receipt of new and large orders with timely collection of receivables leading to lower dependency on working capital borrowings
- Improvement in PBILDT margins above 5% on a sustained basis, on the back of higher margin orders
- Improvement in overall gearing below 1x on a sustained basis, based on reduction in working capital utilization.

Negative Factors

- Further decline in scale of operations from current levels
- Continued incurring of losses by the company

Outlook: Negative

The outlook has been revised to negative on account of sluggishness in the demand for conductors which is further expected to continue for next 3-6 months, project delays and delay in issue of new and large tenders by atleast 3-4 months. The company's operations are further expected to be impacted on account of above.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters and other key management personnel

Mr Lalit Kumar Daga, Chairman and his sons Mr Shailesh Daga, Managing Director and Mr Raghav Daga have an extensive experience in the aluminium and aluminium alloys industry, supported by professional staff, who handles the day to day functioning. Owing to their presence in the same industry for more than three decades, they have developed end-to-end understanding about the functioning of the conductors and aluminium wire rods industry.

Established market position and long standing relationship with clients

HAIL is one of the established companies engaged in the manufacturing of aluminium conductors and wire rods for power distribution and transmission companies. Over the years, the company has built upon a strong network through its deliverables. The company majorly offers its services to reputed clients and has been serving most of these clients over the last 8 years. Most of its clients for aluminium conductors are state transmission and distribution companies. This helps the company in securing repeat orders over the years.

Key Rating Weaknesses

Continuous decline in scale of operations and profitability

The scale of operations on consolidated basis continue to decline from Rs.710 crore in FY18 to Rs.402 crore in FY20. Further, during H1FY21, the total revenue reported was Rs.75 crore as against Rs.248 crore reported during H1FY20. The reasons being sluggishness in demand for the aluminium conductors since past few quarters, existing project delays, impact of COVID and anti-China sentiment which have further delayed various large tenders by few months. Also, the company during FY19 and FY20 have taken orders on minimal or no margins which impacted its profitability, which the company has refrained in the current financial year.

The company reported losses in FY20 as well as in H1FY21 due to accepting of lower margin orders, also higher operating expenses on account of employee costs and wire rod division. The company has now taken various measures to control the various costs and has also shut down the division. The losses were funded by infusing funds through unsecured loans and receipt of advances given to other group company.

Decline in order book position

The company's order book position has declined to Rs.26 crore as on November 23, 2020 as against Rs.85 crore as on October 18, 2019 owing to sluggishness in demand of aluminium conductors in the industry and company refraining itself from taking any lower margin orders. This is expected to impact the performance in the coming quarters.

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 conductor prices also move in tandem with aluminium metal prices. While HAIL's raw material cost changes according to changes in aluminium prices, the company will have to pass on the decline/ rise in prices to its customers, thereby having no significant impact on its profitability. Further HAIL also hedges its raw material prices in case of fixed price contract thus insulating itself to volatility in prices. However, any abnormal volatility in aluminium prices has to be borne by the company in the short run.

Industry Outlook

The conductor industry is facing extreme sluggishness in demand for the past two quarters majorly due to impact of COVID, project delays and anti-China sentiment. Various companies have asked for extension of tenders' deadline by 2-3 months as they need time to evaluate and find source to replace Chinese products. Some very large tenders which were to be issued in the month of September have been extended by 3-4 months which is causing delay for conductor industry. Although, there is no Chinese product required to manufacture conductor but due to other electrical equipments the tender process is getting delayed. Also, the industry is heavily dependent on bank limits (BG) but banks are now renegotiating the limits with the company which is further affecting company's operations.

Liquidity: Adequate – The Company as on September 30, 2020 has cash and cash equivalents of Rs.15.73 crore supported by cash flow from operations and fund infusion by promoters. Reduction in inventory holding and timely collection of receivables has led to decline in utilisation of working capital borrowings from past few months. It has low repayment obligations worth Rs.1.18 crore p.a. in FY21 and FY22. The company had availed moratorium for its non-fund based facilities from two of its banks.

Analytical approach: CARE has adopted consolidated approach. The financials consolidated are standalone HAIL, Hind Power Products Pvt. Ltd., Hind Aluminium Industries (Kenya) Ltd., Associated Industries Limited LLC (SFZ).

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Criteria for short-term instruments
Financial ratios – Non-financial sector
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Established in 1973 by Mr. Lalit Daga, the Associated Group manufactures aluminium wire rods, which are used to make conductors and cables. The business is carried out by its two companies, the flagship company Hind Aluminium Industries Limited (HAIL), incorporated in 1987 and Associated Aluminium Industries Private Limited (AAIPL – rated CARE BBB+; Stable/ CARE A2), incorporated in 1972. The first manufacturing unit (an aluminium rolling mill) under AAIPL was set up in Taloja, Maharashtra.

HAIL, currently has an installed capacity to manufacture 60,000 tonnes per annum (TPA) of aluminium conductors. Further, the company also has an aluminium rod manufacturing facility with an installed capacity of 29,000 TPA (AAIPL 30,800 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 MSEDCL for complete purchase of its generation.

Brief Financials – Consolidated (Rs. Crore)	**FY19 (A)**	**FY20 (A)**
Total Operating Income	560.10	402
PBILDT	18.56	0.17
PAT	2.36	-11
Overall Gearing (times)	1.66	1.47
Interest coverage (times)	1.35	0.02

A: Audited

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 Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Nov 2022	2.94	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	141.91	CARE BBB; Negative
Non-fund-based - ST-BG/LC	-	-	-	48.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2.94	CARE BBB; Negative	-	1)CARE BBB+; Stable (17-Jan-20) 2)CARE BBB+; Stable (17-Dec-19) 3)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (31-Dec-18)	1)CARE A-; Stable (13-Nov-17) 2)CARE A-; Stable (21-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	141.91	CARE BBB; Negative	-	1)CARE BBB+; Stable (17-Jan-20) 2)CARE BBB+; Stable (17-Dec-19) 3)CARE A-; Negative (10-Jun-19)	1)CARE A-; Stable (31-Dec-18)	1)CARE A-; Stable (13-Nov-17) 2)CARE A-; Stable (21-Apr-17)
3.	Non-fund-based - ST-BG/LC	ST	48.00	CARE A3	-	1)CARE A3+ (17-Jan-20) 2)CARE A3+ (17-Dec-19) 3)CARE A2+ (10-Jun-19)	1)CARE A2+ (31-Dec-18)	1)CARE A2+ (13-Nov-17) 2)CARE A2+ (21-Apr-17)

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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