

Hind Aluminium Industries Limited

December 17, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	171.65 (reduced from 172.72)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Negative (A Minus; Outlook: Negative)
Short-term Bank Facilities	85.00 (reduced from 91.44)	CARE A3+ (A Three Plus)	Revised from CARE A2+ (A Two Plus)
Long-term/ Short-term Bank Facilities	-	-	Withdrawn*
Total Facilities	256.65 (Rupees Two hundred Fifty Six crore and Sixty Five lakh only)		

Details of facilities in Annexure-1

*withdrawn as the same was proposed and the company has not raised any amount against the same.

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Hind Aluminium Industries Limited (HAIL) factor in decline in scale of operations during FY19 as well as in current financial year, continual stress on margin profile of the company and deteriorated order book position owing to slowdown in demand for aluminium conductors and intense competition in the industry and resultant impact leading to weak coverage indicators.

The ratings continue to 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. The ratings are however constrained by thin profitability margins due to competitive nature of industry with limited value addition, exposure to volatility in commodity prices/ foreign exchange rates, supplier concentration risk as well as 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.

Rating Sensitivities

Positive Factors

- Improvement in PBILDT margins above 6% on a sustained basis, on the back of increased order book and company's entry into high performance conductors.
- Improvement in overall gearing below 1x on a sustained basis, based on reduction in working capital utilization.

Negative Factors

- Increase in overall gearing above 2x on a sustained basis.
- Decrease in PBILDT margins below 3% on a sustained basis.

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 PSU state transmission and distribution companies. This helps the company in securing repeat orders over the years.

The customer profile during FY19 has changed, earlier majority of customers were only transmission companies and PSUs. Since FY19, around 40% orders are from private players and remaining from others.

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

Key Rating Weaknesses**Supplier concentration risk arising from Hindalco being the sole supplier for aluminium**

Aluminium, the key raw material is mainly procured from Hindalco Industries Limited. For FY19, around 37% of its raw material requirements were met by Hindalco and around 54% was met by Associated Aluminium Industries Private Limited (AAIPL) which in turn entirely procures its requirements from Hindalco. Disruption in supplies by Hindalco can adversely impact HAIL's manufacturing schedule.

To mitigate this, HAIL since June 2019 has decided to procure from multiple sources.

Decline in order book position

The company's order book position has declined to Rs.85 crore as on October 18, 2019 as compared to Rs.285 crore as on December 31, 2018, owing to sluggishness in demand of aluminium conductors in the industry. However, the company is in advance discussion with several customers for orders worth Rs.97 crore, which provides near term visibility.

Deterioration in operational and financial performance in FY19 and H1FY20

The income from operations on a consolidated basis has registered a decline of 21% from Rs.710 crore in FY18 to Rs.560 crore in FY19 respectively. This significant decline was on account of sales being net of Goods and Services Tax (GST), decline in aluminium prices as well as decline in total sales quantity during FY19. Also, there is change in customer profile of HAIL i.e. in FY19 it has taken orders around 40% from private players where margins are low as compared to orders received from power grids/ electricity boards.

Due to decline in prices and quantity sold, PBILDT margins also got affected and declined to 3.31% in FY19 from 4.54% in FY18. Absolute PAT for FY19 was Rs.3.73 crore as against Rs.8.13 crore in FY18.

During H1FY20, the company's performance has deteriorated further. Income from operations declined 17% year-on-year and the company incurred net loss of Rs. 1.20 crore during this period. The performance is expected to improve from FY21 onwards on the back of company's entry into high performance conductors (high margin business), various cost control measures undertaken as well as higher exports.

Moderate financial risk profile with working capital intensive nature of operations and weak coverage indicators

HAIL has moderate financial risk profile marked by moderate gearing and liquidity due to working capital intensive nature of operations. HAIL has moderate gearing levels with overall gearing (including acceptances) improving from 2.03x as on March 31, 2018 to 1.66x as on March 31, 2019 due to decline in total debt. Working capital borrowings declined as on March 31, 2019 due to decline in scale of operations whereas term debt also declined due to repayment. Interest coverage ratio worsened to 1.35x during FY19 from 2.10x during FY18 on account of lower PBILDT as compared to previous year.

HAIL's working capital intensity is reflected by relatively high operating cycle of around three months. The utilization of fund-based limits for the past 12 months ending September 2019 is around 81%.

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. 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

India is amongst the fastest developing countries in electricity consumption. It is also the third largest producer and fourth largest consumer of electricity in the world. India also has the fifth largest capacity in the world. The transmission network during 12th Five year plan has increased to 367,851 ckms of transmission lines and 721,265 MVA of transmission capacity. 100% FDI is allowed under the automatic route in the power segment and renewable energy. With government's efforts to maximize power generation capacity addition in the years of the 13th plan period, the outlook for power equipment industry is likely to remain stable.

Liquidity: Moderate – HAIL has working capital intensive operations which are reflected from its fund-based utilisation. Its average utilisation for past 12 months ended September 2019 stood at 81%. It has low repayment obligations worth Rs.1.18 crore every year. Its current ratio stood comfortable at 1.34 times. Cash and cash equivalents as on March 31, 2019 stood around Rs.4 crore. The company does not have any capex plans in medium term.

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](#)

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.

Apart from the aluminium conductors and the power business, HAIL is also involved in trading of minerals and contribution from it is very minimal. HAIL has two subsidiaries and a Joint Venture company as on March 31, 2019.

Brief Financials – Consolidated (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	710.47	560.10
PBILDT	32.24	18.56
PAT	8.84	2.36
Overall Gearing (times)	2.03	1.66
Interest coverage (times)	2.10	1.35

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/Non-fund-based-LT/ST	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	Nov 2022	3.65	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	168.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	85.00	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 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/Non-fund-based-LT/ST	LT/ST	-	-	1)CARE A-; Negative / CARE A2+ (10-Jun-19)	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	3.65	CARE BBB+; Stable	1)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)	1)CARE A- (02-May-16)
3.	Fund-based - LT-Cash Credit	LT	168.00	CARE BBB+; Stable	1)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)	1)CARE A- (02-May-16)
4.	Non-fund-based - ST-BG/LC	ST	85.00	CARE A3+	1)CARE A2+ (10-Jun-19)	1)CARE A2+ (31-Dec-18)	1)CARE A2+ (13-Nov-17) 2)CARE A2+ (21-Apr-17)	1)CARE A2+ (02-May-16)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
For Term Loan above Rs.50 crore, benchmark for annual testing of financial covenants	DSCR – 1.75
	Interest coverage Ratio – 2.00
	FACR – 1.25
	Current Ratio – 1.00
B. Non-financial covenants	NA

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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