Hind Aluminium Industries Limited

December 31, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	172.72 (reduced from Rs.174.52 crore)	**CARE A-; Stable (A Minus; Outlook: Stable)**	**Reaffirmed**
Long/Short Term Bank Facilities	9.90 (enhanced from Rs.8.10 crore)	**CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)**	**Reaffirmed**
Short term Bank Facilities	91.44	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**274.06 (Rs. Two hundred seventy four crore & six lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Hind Aluminium Industries Limited (HAIL) 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, continued satisfactory operational performance and healthy order book position. The ratings also take into account the stable outlook for the conductor industry supported by the Government's focus on the transmission sector.

These rating strengths are however, tempered by low profitability margins due to competitive nature of industry with limited value addition, exposure to volatility in commodity prices/ foreign exchange rates, moderate financial risk profile with working capital intensive nature of operations and the cyclical nature of the industry.

The ability of HAIL to maintain its profitability margins in the scenario of volatility in raw material prices and effectively manage its working capital cycle is the key rating sensitivity.

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 8 years. This helps the company in securing repeat orders over the years. Hindalco Industries Ltd is key raw material supplier for over 35 years.

Healthy order book position: HAIL has a healthy order book position of 1approx. Rs. 285 crore as on December 24, 2018. Further, the company is in advanced discussion with several customers for orders worth Rs. 178 crore which provides near term visibility.

Continued satisfactory operational performance: The income from operations improved by 43% from Rs.498 crore in FY17 to Rs.710 crore in FY18 respectively. This significant gain was on account of higher orders executed as well as commercial production in Kenya subsidiary during FY18 combined with subdued financial performance in FY17. Similarly, the PBILDT and PAT margins also improved at 4.54% and 1.24% in FY18 from 3.63% and 1.06% in FY17 respectively.

Key Rating Weaknesses

Moderate financial risk profile: HAIL has moderate gearing levels with overall gearing at 1.62x as on March 31, 2018 (1.20x as on March 31, 2017). Moreover, Total Outside Liabilities (TOL) to net-worth deteriorated to 2.21 times in FY18 from 1.75 times in FY17 due to increase in working capital borrowings. Interest coverage ratio is comfortable albeit deteriorated slightly to 2.1x during FY18 (2.4x in FY17) on account of higher interest expenses compared to previous year.

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

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. The working capital cycle marginally improved from 69 days in FY17 to 67 days in FY18. However, the utilization of fund based limits for the past 12 months ending October 2018 is around 85%.

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.

Stable outlook for the conductor industry in the 13th plan

India is the third largest producer and fourth largest consumer of electricity in the world, with the installed power capacity reaching 330.3 GW by June 2017. India also has the fifth largest capacity in the world. The Government has added 93.5 GW of power generation capacity, thereby surpassing its target of 88.5 GW during the period under the 12th Five-Year Plan (2012-17) and targets 100GW under the 13th Five-Year Plan (2017-22). Wind energy is estimated to contribute 60 GW, followed by solar power at 100 GW by 2022. The target for renewable energy has been increased to 175 GW by 2022. 100 percent FDI is allowed under the automatic route in the power segment and renewable energy. Indicating significant growth in the power transmission sector, the Central Electricity Authority (CEA) has estimated an investment of Rs 2.6 lakh crore till 2022.Inter-regional capacity addition during the 13th plan (2017-22) is estimated at 45,700 Mw, from 63,650 Mw by the plan end, said CEA. If 70% of the planned capacity is materialized it would translate to an aggregate annual order flow of around Rs.1.75 lakh crore for the Indian power equipment industry. In addition, there would also be a replacement demand of around 10% of the total orders. With expected revival in power sector and investment cycle and efforts to maximize power generation capacity addition in the last two years of the 13th plan period, the outlook for power equipment industry is likely to remain stable.

Liquidity position

Interest coverage ratio of HAIL deteriorated marginally to 2.1x in FY18 as compared to 2.4x during FY17 on account of more than proportionate increase in its interest expenses as compared to the increase in PBILDT levels. Gross cash accurals improved from Rs. 8.61 crore in FY17 to Rs.13.32 crore in FY18 on account of improvement in its profitability. In comparison to its principal repayment of around Rs. 1.20 crore in FY19, the company during H1 FY19 has already recorded and GCA of around Rs. 6.43 crore.

The company has unutilized fund based limits of around 15% of drawing power of sanctioned limits which provides partial liquidity comfort.

Analytical approach: CARE has adopted consolidated approach instead of the earlier standalone approach. The change in approach is primarily on account of starting of commercial operations of its subsidiary company Hind Aluminium Industries (Kenya) Ltd during the year. Furthermore, FY18 was also the first year of preparation of consolidated financials. Consolidated financials of HAIL include subsidiaries Hind Power Products Pvt Ltd and Hind Aluminium Industries (Kenya) Ltd and joint venture Associated Industries Ltd SFZ.

Applicable Criteria

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

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. The business is carried out by its two companies, the flagship company Hind Aluminium Industries Ltd (HAIL) incorporated in 1987 and Associated Aluminium Industries Pvt Ltd (AAIPL – rated CARE BBB+; Stable / CARE A2).

The first manufacturing unit (an aluminium rolling mill) under AAIPL was set up in Taloja in the state of Maharashtra. The Group further expanded its manufacturing facility by setting up a manufacturing plant in Daman, which handled complete aluminium fabrication jobs.

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 H1FY19, on a standalone basis HAIL reported PAT of Rs. 4.90 crore on a turnover of Rs. 295.40 crore as against PAT of Rs. 5.39 crore on a turnover of Rs. 296.81 crore during the corresponding previous year.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	498.27	710.47
PBILDT	18.06	32.24
PAT	5.31	8.84
Overall gearing (times)	1.20	1.62
Interest coverage (times)	2.36	2.10

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

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 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	-	-	-	9.90	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	FY23	4.72	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	168.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	91.44	CARE A2+

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/Non-fund-based-LT/ST	LT/ST	9.90	CARE A-; Stable / CARE A2+	-	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-; Stable	-	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-; Stable	-	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+ (13-Nov-17) 2)CARE A2+ (21-Apr-17)	1)CARE A2+ (02-May-16)	-

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