

## Manaksia Aluminium Company Limited

January 08, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long Term Bank Facilities (Term Loan)	15.00	<b>CARE BBB, Stable (Triple B, Outlook: Stable)</b>	Reaffirmed
Long Term Bank Facilities (Fund Based)	45.00	<b>CARE BBB, Stable (Triple B, Outlook: Stable)</b>	Reaffirmed
Short Term Bank Facilities (Non Fund Based)	105.00	<b>CARE A3+ (A Three Plus)</b>	Reaffirmed
Total	<b>165.00 (Rs. One Hundred Sixty Five Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manaksia Aluminium Company Limited (MACL) continues to draw comfort from experienced promoters, steady financial performance with stable operating margin in FY19 (refer to the period from April 1 to March 31) & H1FY20 and reducing geographical concentration risk. The ratings, however, are constrained by moderation in financial risk profile on account of debt laden capex, delay in commercial operations of additional caster unit, profitability susceptible to volatility in prices of raw-materials, exposure to foreign exchange fluctuations and working capital intensive nature of operations.

### Rating Sensitivities

#### Positive Factors

- Increase in scale of operations and improvement in operating margin beyond 9%
- Improvement in overall gearing ratio to 0.8x and TD/GCA at 4x
- Improvement in operating cycle to 63 days

#### Negative Factors

- Decline in scale of operations below Rs.330 crore and operating margin below 6%
- Deterioration in overall gearing and TD/GCA beyond 1.5x & 13.5x respectively

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced promoters

MACL is looked after by Mr. Sunil Kr. Agrawal who has an experience of about three decades in manufacturing and factory administration for aluminium rolled products. He is well supported by Mr. Vineet Agrawal in managing day to day operations of the company who also looks into the marketing function of the company. The other promoter directors i.e. Mr. Basudeo Agrawal (father of Mr. Vineet Agrawal) and Mr. Anirudha Agrawal (son of Mr. Sunil Kr. Agrawal) are also involved into the overall management of the company.

##### Steady financial performance with stable operating margin in FY19 & H1FY20

MACL's total operating income increased by 21% y-o-y to Rs.275.61 crore in FY19 on the back of increase in capacity utilisation of aluminium rolled products. However, PBILDT margin remained stable at 5.82% in FY19 vis-à-vis 5.33% in FY18. Interest coverage ratio remained stable at 1.77x in FY19 (1.76x in FY18). The company reported gross cash accruals of Rs.8.26 crore as against debt repayment obligations of 0.06 crore.

In H1FY20, the company reported PBT of Rs.2.28 crore on total operating income of Rs.147.81 crore as against PBT of Rs.1.07 crore on total operating income of Rs.131.49 crore in H1FY19.

##### Reducing geographical concentration risk

MACL revenue is mainly driven by exports to overseas countries such as Nigeria, USA, UAE, etc. Its export revenue forms about ~68% of total sales in FY19 (61% in FY18). However in FY19, the company's major export sales were made to USA.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Key Rating Weaknesses****Moderation in financial risk profile on account of debt laden capex**

The company's overall gearing moderated from 0.87x as on Mar 31, 2018 to 1.18x as on Mar 31, 2019 on account of availment of term loan and unsecured loan for the capex along with higher utilization of working capital limits. Total debt to GCA also moderated from 12.77x in FY18 to 15.15x in FY19 due to increase in debt levels.

MACL's overall gearing and debt protection metrics deteriorated to 1.32x and 16.15x as on Sep 30, 2019.

**Delay in commercial operations of additional caster unit**

The expected COD for the additional caster plant (7,800 tpa) was April, 2019 earlier and the debottlenecking of the existing rolling mill for which various machines are to be installed was expected to commence by June, 2019. However, due to various operational issues related to machinery defect and subsequent replacement, the commercial production of caster unit got delayed and commenced from December 08, 2019. The debottlenecking of the existing rolling mill is expected to commence operations from March, 2020 onwards. The company has incurred around Rs.20.80 crore (out of total project cost of Rs.24.61 crore) on the project till October 30, 2019. The implementation of the aforesaid project is expected to improve capacity utilisation (CU) of rolled products (CU: 64% in FY19).

**Profitability susceptibility to volatility in prices of raw materials**

Raw material expense is the major cost driver for MACL and forms about ~78% of total cost of sales in FY19 and FY18). The major raw material is Aluminium Scrap. Since the raw material is the major cost driver and raw material prices are volatile in nature, the profitability margin of the company is susceptible to fluctuation in raw material prices which is partially mitigated through commodity hedging.

**Exposure to forex fluctuation risk**

MACL imported about ~92% of its raw-material requirement (mainly aluminium scrap) in FY19. Furthermore, MACL has a large presence in export market. On an overall basis, the exports receivables get offset with import payables to a large extent. In view of this, the company has a flexible forex hedging policy and generally partially hedges its forex exposure through forward cover. In FY19, MACL reported forex gain of Rs.1.63 crore as against Rs.1.07 crore in FY18.

**Working capital intensive nature of operations**

MACL's operation is working capital intensive in nature as it needs to provide certain credit period to its customers in view of general practice in the industry and stock raw inventories due to lead time involved in import of raw-material (2.5 months from overseas port to factory). The company's operating cycle stood at 88 days in FY19 (136 days in FY18).

**Industry Outlook:**

India's primary aluminium production is to increase by 3.7% during FY20 as all the domestic smelters are now operating at full capacity and the primary aluminium producers will not be ramping up their capacities anytime soon. Growth in demand (including secondary demand) is likely to remain stable and is expected to range around 6% to 7% during FY20. The growth in consumption is likely to be driven by the growth in power transmission and packaging sector. With the rationing out of consumption of single-use plastic, the white metal has good demand prospects in the packaging industry.

**Liquidity: Adequate** – Liquidity is marked by cash accruals of Rs.8.26 crore vis-à-vis repayment obligations of Rs.0.06 crore and free cash balance of Rs.0.21 crore as on Mar 31, 2019. Its fund based bank limits are utilized to the extent of 93% for the last 12 months ended October, 2019, and is supported by current ratio above unity.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

**About the Company**

Manaksia Aluminium Co. Ltd. (MACL) was incorporated on March 25, 2010. It was a dormant company till October 1, 2013 when the aluminium division of Manaksia Ltd. (ML) was transferred to it under the scheme of demerger. The company is engaged in manufacturing of secondary aluminium rolled products like Pre-Coated Coil & Sheet alongwith Colour Coated Coil

& Sheet with an installed capacity of 18,000 tpa at Bankura and Haldia in West Bengal. The products are widely used in the construction and transportation sector, fan industry, automobiles, consumer durable sector etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	227.91	275.61
PBILDT	12.15	16.05
PAT	1.24	7.33
Overall gearing (times)	0.87	1.18
Interest coverage (times)	1.76	1.77

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 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	-	-	-	45.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	105.00	CARE A3+
Fund-based - LT-Term Loan	-	-	Sep 30, 2024	15.00	CARE BBB; Stable

#### 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 - LT-Term Loan	LT	-	-	-	1)Withdrawn (04-Jan-19)	1)CARE BBB; Stable (05-Jan-18)	1)CARE BBB; Stable (18-Jan-17) 2)CARE A- (13-May-16)
2.	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-19)	1)CARE BBB; Stable (04-Jan-19)	1)CARE BBB; Stable (05-Jan-18)	1)CARE BBB; Stable (18-Jan-17) 2)CARE A- (13-May-16)
3.	Non-fund-based - ST-BG/LC	ST	105.00	CARE A3+	1)CARE A3+ (03-Apr-19)	1)CARE A3+ (04-Jan-19)	1)CARE A3+ (05-Jan-18)	1)CARE A3+ (18-Jan-17) 2)CARE A2+ (13-May-16)
4.	Fund-based - LT-Term Loan	LT	15.00	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-19)	-	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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