Press Release

Manaksia Aluminum Company Limited

May 14, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	60.00	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	105.00	IVR A2 (IVR Single A two)	Assigned
Total	**165.00**		

Details of Facilities are in Annexure 1

Rating Rationale

The ratings assigned to the bank facilities of Manaksia Aluminum Company Limited (MACL) factors in the long track record and extensive experience of the promoters in the aluminum industry, wide geographical presence and improvement in capacity utilisation. The ratings also positively considered its stable operating performance with gradual improvement in profitability and comfortable financial risk profile. However, these rating strengths are partially offset by working capital intensive nature of its operations, exposure to foreign exchange fluctuation risk, susceptibility of operating margin to volatility in raw material prices and cyclicality in the aluminum industry.

Key Rating Sensitivities

Upward Rating Factor

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Rating Factor

- Dip in operating income and/or profitability impacting the debt coverage indicators,

- Deterioration in the capital structure with overall gearing to over 1.5x and interest coverage to below 1.5x
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 90% on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Long track record and extensive experience of the partners in the aluminum industry

Manaksia Limited (ML) was incorporated in 1984 in Kolkata by one Agarwal family. It was multi-divisional, and the product line included packaging products, aluminum rolled products, galvanized steel and mosquito coils. In 2013, the aluminum division of Manaksia Ltd. was transferred under a scheme of demerger to MACL and currently MACL is engaged in manufacturing of aluminum rolled products in coil and sheet form as well as aluminum alloy ingots. The promoters has a long and extensive experience of over three decades in the aluminum industry. Currently the operations are looked after by Mr. Sunil Kr. Agrawal who is well supported by Mr. Vineet Agrawal in managing the day to day operations of the company. The extensive experience of the promoters in the industry has helped the company in establishing healthy relations with customers and suppliers which is likely to benefit the company in the medium term.

Wide geographical presence

The company has business across Nigeria, Ghana, UAE, Georgia and Nepal through its subsidiaries. MACL revenue is mainly driven by exports which forms about ~68% of total sales in FY19 (~61% in FY18). However in FY19, the company's major export sales were made to USA.

Improvement in capacity utilisation

The capacity utilization of MACL has improved during FY19 with utilisation in the aluminum rolled product and caster coils stood at 64% and 75% respectively improved from 55% and 72% respectively during FY18. The company has improved the capacity as the realisation for the aluminum rolled products improved simultaneously during the same period. The overall improvement in realisation coupled with improvement in capacity utilisation led to overall increase in operating income in FY19. Further, the company is expected to improve its capacity utilisation going forward with the commencement of the for the additional caster plant (7,800 tpa) from Dec'19.

Stable operating performance with improvement in profitability

The company recorded an improvement in its total operating income at a CAGR of ~6% during FY17-19 with a y-o-y sales growth of ~ 20 % in FY19 driven by rise in sales volume and better sales realization. The EBIDTA margin also improved from 2.04 % in FY17 to 5.82 % in FY19. The improvement in EBIDTA margin was due to higher absorption of fixed overhead backed by higher capacity utilisation coupled with improvement in realization (The realisation per MT improved to Rs.186185 in FY 19 from Rs.164746 in FY 18.) and cost optimization initiatives. Further, during 9MFY20, MACL has achieved an operating income of Rs.217.76 crore with an EBITDA of Rs.14.50 crore as compared to operating income of Rs.203.72 crore and EBITDA of Rs.12.56 crore in 9MFY19. The EBITDA margins also have envisaged improvement during the last 2 quarter with margins hovering around 8-9 % as improved from 6 % in the Q1 FY20.The improvement is mainly driven by further improvement in sales realisation.

Comfortable Financial risk profile

The financial risk profile of MACL is marked by its healthy net worth, comfortable gearing and moderate debt protection metrics. The net worth stood healthy at Rs.106.31 crore as on March 31, 2019 and Rs,108.10 crore in September 30, 2019. The long term debt equity ratio and the overall gearing ratio were comfortable at 0.13x and 0.62x respectively as on March 31, 2019 (0.03x and 0.87x respectively as on March 31, 2018). Further, total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 1.38x as on March 31, 2019 (1.24x as on March 31, 2018). The debt protection metrics marked by the interest coverage ratio of 2.38x in FY19 as compared 2.26x in FY18. Further, the company has earned satisfactory cash accruals of about Rs~8.88 crore (~Rs.7.06 crore in FY18) to serve its minor debt obligation of Rs.0.20 crore in FY19. Further, in H1FY20 the overall gearing and TOL/TNW of the company continued to remain comfortable at 0.79x and 1.31x respectively. The interest coverage ratio stood at 1.62 in 9MFY20. The dip in interest coverage ratio is on account of the additional term loans taken for its completed capex, however Infomerics expects that the financial risk profile to remain satisfactory in the near term.

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the aluminum industry. The major raw materials required for manufacturing are aluminum scraps. Since, the raw material is the major cost driver (constituting about 70-75% of total cost of sales in FY19) and raw material prices are volatile in nature, the profitability of the company is susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, aluminum steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Exposure to foreign exchange fluctuation

The company does imports scrap as raw materials mostly from South East Asia and European countries which on an average consists of ~ 60-70 % of total procurement. Further it export its finished products to different countries including European, African and Asian counties which on an average consists of ~ 65-75 % of its total sales hence, enjoys a natural hedging to an extent. However, the company generally use forward cover to hedge its forex fluctuation risk. In FY19, the company had a forex gain of Rs.1.63 crore.

Working capital intensive nature of operations

MACL's operation is working capital intensive in nature as it needs to maintain high inventory 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 55 days in FY19 (137 days in FY18). However, the average utilization of fund based bank limit was around ~79 % during the last 12 months ending Jan 31, 2020 indicating a satisfactory liquidity buffer.

Exposure to inherent cyclicality of the metal industry

The metal industry is cyclical in nature and the company is also exposed to the same.

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Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

Liquidity position of the company is expected to remain adequate marked by expected gross cash accruals in the range of Rs.11-15 crore in FY20-FY22 as compared to debt obligation in the range of Rs.3-4 crore. Moreover, with a gearing of 0.62 times as of March 31, 2019, the company has sufficient gearing headroom, to raise additional debt for its capex. Further, the average utilization of fund based bank limit was around ~79 % during the last 12 months ending Jan 31, 2020 indicating a satisfactory liquidity buffer.

About the Company

Manaksia Limited was incorporated in 1984 in Kolkata, West Bengal. It was multi-divisional, and the product line included packaging products, aluminum rolled products, galvanized steel and mosquito coils. In 2013 the Aluminum vertical of Manaksia Limited (ML) was transferred under the scheme of demerger to MACL. MACL is primarily engaged in the manufacturing of value added aluminum products such as Aluminum Rolled Sheets / Coils, Aluminum Patterned Sheets, Aluminum Roofing Sheets, Aluminum Flooring Sheets, Aluminum Alloy Ingots. The Aluminum caster division of the company has an operational capacity to produce 18,000 MT per annum. The products are widely used in the construction and transportation sector, fan industry, automobiles, consumer durable sector etc.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	227.91	275.61
EBITDA	12.13	16.05
PAT	1.24	7.33
Total Debt	86.27	65.91

Tangible Net worth	99.03	106.31
EBITDA Margin (%)	5.32	5.82
PAT Margin (%)	0.54	2.64
Overall Gearing Ratio (x)	0.87	0.62

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: Nil

Rating History for last three years:

Sr. No.	Name Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Croe)**	**Rating**	**Date(s) & Rating(s) assigned in 19-20**	**Date(s) & Rating(s) assigned in201 8-19**	**Date(s) & Rating(s) assigned in 2017-18**
1	Term Loan	Long Term	15.00	IVR BBB+/ Stable Outlook	-	-	-
2	Cash Credit	Long Term	45.00	IVR BBB+/ Stable Outlook	-	-	-
3	Letter of Credit	Short Term	99.00	IVR A2	-	-	-
4	Bank Guarantee	Short Term	6.00	IVR A2	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Aniruddha Dhar Tel: (033) 46022266 Email: adhar@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

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Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	Sept'2024	15.00	IVR BBB+/ Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	45.00	IVR BBB+/ Stable Outlook
Short Term Bank Facilities – Letter of Credit	-	-	-	99.00	IVR A2
Short Term Bank Facilities – Bank Guarantee	-	-	-	6.00	IVR A2