RATING RATIONALE **22 Oct 2020**

ASSAM ROOFING LIMITED

Brickwork Ratings reaffirms at BWR A- (Stable)/A2+, the long and short-term ratings, respectively, for the enhanced bank loan facilities of Assam Roofing Limited aggregating Rs. 75.00 Crs.

Particulars:

Facilities*	Amount (Rs. Crs)		Tenure	Rating**	
	Previous	Present		Previous (June 2020)	Present
Fund Based	65.00	71.50	Long Term	BWR A-, Stable, Reaffirmed	BWR A-, Stable, Reaffirmed
Non Fund Based	3.50	3.50	Short Term	BWR A2+, Reaffirmed	BWR A2+, Reaffirmed
Total	68.50	75.00	Rs. Seventy Five Crores Only		

* Details of bank loan facilities are provided in Annexure-I
**Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

RATING ACTION: Rating Reaffirmed

Brickwork Ratings (BWR) has essentially relied on the audited financial statements of Assam Roofing Ltd (ARL or the company) upto FY 20, relevant data to the extent available for H1FY 21, projected financials for FY 21, publicly available information, and information/clarifications provided by the company's management and its banker to arrive at the present ratings.

BWR has **reaffirmed BWR A- with a Stable outlook** for the enhanced long-term bank loan facilities aggregating Rs. 71.50 Crs, and **BWR A2+** for the short-term bank loan facilities of Rs. 3.50 Crs of the company (total amount rated Rs. 75.00 Crs). The reaffirmed ratings continue to derive strength from the experienced management and established track record of ARL, group support, locational advantage, adequate liquidity, as well as a diversified customer portfolio. The ratings also take due cognisance of the company's satisfactory financial profile and efficient management of working capital.

The rating is, however, constrained by the company's moderate scale of operations and its geographic concentration, supplier concentration, susceptibility of operating profit margins to the volatility in input costs and competition prevailing in this industry.

The rating has been assigned a Stable outlook as the company's business risk profile is stable, and growth in business and profitability is expected to be maintained in the medium term

KEY RATING DRIVERS

Credit Strengths:

- **Experienced management and long track record of promoters:** The promoters have more than four decades of experience in the roofing segment in the Northeast region. The strong distribution network for its products and further support from backward integration through one of the group companies, PDP Steels Ltd (PDPSL), provide substantial cost and marketing benefits to ARL.
- **Group support:** The group, promoted by Mr Bhagirath Pasari and family, consists of five companies, namely, ARL, North East Roofing Private Limited (NERPL), Afflatus Trading Private Limited (ATPL), PDP Steels Limited and Assam Enterprise LLP, of which Assam Enterprise LLP is debt-free. PDP Steels Ltd manufactures CR coils and CR sheets, which constitute important raw materials for manufacturing Galvanised Steel Sheets (GSS) for the roofing industry, and supplies a significant portion of ARL's requirements. ARL also utilises the services of another group company, ATPL, for the procurement and supply of other essential inputs for its manufacturing process.
- **Locational advantage:** ARL enjoys a strategic locational advantage by virtue of its manufacturing operations being situated in Guwahati. By manufacturing locally, ARL provides a price advantage to its customers, vis-a-vis its major competitors located elsewhere in the country; it is also able to customise its products as per clients' requirements.
- **Well-diversified customer portfolio:** Assam is a major market for roofing sheets as it is prone to heavy rainfall, floods and earthquakes; low-cost houses and temporary constructions have to be constantly built and rebuilt on account of regular natural disasters. ARL is one of the leaders in roofing products in the Northeast region marketed under the RHINO brand. It has a strong local presence, supported by a strong distributors network. Accordingly, demand for its products is high and stable.
- **Financial performance:** The company's financial performance in FY 20 stood healthy, marked by a total operating income of Rs. 346.13 Crs, tangible net worth of Rs. 96.16 Crs, Interest Service Coverage Ratio (ISCR) at 2.92x, along with the total debt to tangible net worth at 0.78x.
- **Efficient working capital management:** ARL has been managing its working capital efficiently through its prudent utilisation of cash credit facilities. It has been maintaining its receivable days in the range of 25 to 30 for the past two years, which is expected to remain in the same range, going forward. The level of utilisation of bank limits by the company also stood at less than 50% in FY 20.

Credit Risks:

- **Moderate scale of operations:** The company's scale of operations is relatively moderate, which in turn limits its operational and financial flexibility.
- **Geographical concentration:** ARL earns its entire revenue through sales in the Northeastern region of India, mainly in Assam. This exposes the company's revenue and profitability to risks related to geographical concentration.

- **Supplier concentration**: While integrated operations within the group give an added advantage to ARL, it also gives rise to the risk of the concentration of suppliers.
- **Susceptibility of operating margins to volatility in input cost:** Raw materials required for the company's manufacturing operations have shown a volatile trend over the years and are determined by market forces.
- **Competition faced**: There is competition in the sector from larger players like Tata Steel, JSW Steel, etc, but the company enjoys distinct advantages over them on account of its local presence and goodwill created over the years.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria given below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES:

Positive Triggers

Factors that could lead to an upgrade in ratings are as follows:

1. A significant overall improvement in the operational performance while maintaining adequate liquidity
2. Specific credit metrics that could lead to an upgrade include the following:
   - The ISCR greater than 4.50 and the DSCR greater than 3.00 on a sustained basis
   - An improvement in the operating profit margin on a sustained basis

Negative Triggers

Negative pressure on the company's rating could arise due to the following:

1. If there is a deterioration in the company's liquidity position
2. Specific credit metrics that could lead to a downgrade include the following:
   - Decline in sales, vis-a-vis the projections by more than 10%
   - A deterioration in operating profit margins to below 5%

LIQUIDITY POSITION: ADEQUATE

The company's liquidity position is adequate, as reflected by cash accruals of Rs. 10.99 Crs in FY 20, after meeting interest obligations. As per the projections for FY 21, the cash accruals are expected to be Rs. 13.17 Crs after meeting its interest obligations. The average utilisation of the sanctioned working capital limits for ARL for the past six months ended September 2020 stood below 20%. The company has not availed the RBI Covid-19 moratorium and has been servicing the obligations regularly. The cash credit utilised as on 30 September 2020 was ~10%, which shows that the liquidity cushion is comfortable for ARL.

COMPANY PROFILE

Incorporated in 1972, ARL runs under the directorship of Mr. Bhagirath Pasari, Mr. Rahul Pasari, Mr. Arvind Prasad and Mr. Indu Adukia. ARL manufactures asbestos cement sheets and

GSS for roofing, with an installed capacity of 1,18,266 TPA, in Guwahati (Assam). It is the flagship company of the group of five companies, including ARL, NERPL, PDPSL, ATPL and Assam Enterprise LLP (which is debt-free).

ARL holds a 99.90% share in ATPL, which has also been rated by BWR at A2+(CE) for bank loan facilities aggregating Rs. 13 Crs, based on the corporate guarantee provided to the company by ARL. The combined total operating income of ARL and ATPL stood at Rs. 355.00 Crs, and the TNW stood at Rs. 96.39 Crs in FY 20.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY20 (Audited)	FY19 (Audited)
Operating Revenue	Rs. Crs	346.13	365.91
EBITDA	Rs. Crs	17.33	20.19
PAT	Rs. Crs	2.97	6.01
TNW	Rs. Crs	96.16	92.90
Total Debt/TNW	Times	0.78	0.75
Current Ratio	Times	1.69	1.67

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Standard covenants

NON-COOPERATION WITH PREVIOUS RATING AGENCY: None

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawals and suspensions):

Facilities	Current Rating (Oct 2020)			Rating History		
	Tenure	Amt (Rs. Crs)	Rating	7/2/19^	26/3/18	5/4/18
Fund Based (FB)	Long Term	71.50*	BWR A- (Stable) Reaffirmed with enhancement	FB | 65.00 | BWR A- (Stable) Reaffirmed	FB | 65.00 | BWR A- (Stable) Reaffirmed	FB | 65.00 | BWR A- (Stable) Reaffirmed
Non Fund Based (NFB)	Short Term	3.50*	BWR A2+ Reaffirmed	NFB | 3.50 | BWR A2+ Reaffirmed	NFB | 3.50 | BWR A2+ Reaffirmed	NFB | 3.50 | BWR A2+ Reaffirmed
Total		75.00	Rs. Seventy Five Crores Only			

^Moved to Ratings not Reviewed category on 10/2/2020
*With enhancement in amount

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Sector
- Short Term Debt

Analytical Contacts	Investor and Media Relations
Hema Sethia **Ratings Analyst** **B :+91 80 4040 9940** **hema.s@brickworkratings.com** **Anuradha Gupta** **Director – Ratings** **Board: 9073918943** **anuradha.g@brickworkratings.com**	**Liena Thakur** **Assistant Vice President - Corporate Communications** **+91 84339 94686** **liena.t@brickworkratings.com**

Assam Roofing Ltd
ANNEXURE I
Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1.	State Bank of India	Cash Credit Covid-19 Emergency Line of Credit LC/BG	65.00 6.50 3.50	- - 3.50	65.00 6.50 3.50
Total (Rupees Seventy Five Crores Only)					**75.00**

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.