

RATING RATIONALE

Ambica Aluminium

Brickwork Ratings revises the rating for Bank Loan Facilities of ₹ 7.90 crs of the Ambica Aluminium (enhanced from Rs 6.79crs).

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2020)	Present
Fund based	6.79	7.90	Long Term	BWR B Stable Downgraded Issuer Not Co-operating*	BWR B+ Stable Upgraded
Total	6.79	7.90	INR Seven Crores and Ninety Lakhs Only		

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

RATING ACTION/OUTLOOK :

BWR has upgraded the rating of the bank loan facilities of Rs 7.90crs crs of Ambica Aluminium (“AA” or “The Firm”). The rating has been upgraded based on the business experience of the partners in the industry establishing strong relationships with customers and suppliers , modest scale of operations coupled with moderate operating margins and moderate debt service indicators of the firm indicating the ability to service the debt obligations. However, the rating is constrained on account of the modest financial risk profile of the firm driven by a high gearing levels on the back of the modest net worth base, and risk associated with the partnership nature of the firm and susceptibility of the margins to the price fluctuations. The firm also faces stiff competition from other organised and unorganized players in the fragmented and competitive industry limiting the pricing power.

BWR believes that AA’s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

BWR has essentially relied upon the audited financial statements of AA up to FY 20, projected financials for FY21 and FY22, publicly available information and information/clarifications provided by the entity’s management.



KEY RATING DRIVERS

Credit Strengths:

- **Management Experience:** The key partner in the firm possesses an experience of more than three decades in the industry. Three decade-long presence of the partners, in the industry, has enabled them to gain a strong understanding of local market dynamics and maintain healthy relationships with customers and suppliers, which continues to support the business risk profile.
- **Modest Scale of operations with moderate operating margins:** There has been an improvement in the scale of operations of the firm during FY19 to Rs. 38.01crs as against Rs. 30.21crs during FY18. During FY20, the firm has managed to record Rs 34.01crs of revenue. The moderation in the revenue during FY20 has been on account of the overall slowdown on account of the global pandemic and nationwide lockdown during March 2020. The firm has also expanded its installed capacity to 4800 MTPA from its existing 3000 MTPA. Also, the firm has maintained the operating margins in the range of 5-6%. The Net Profit margins, however, have remained low over the past three years, below 0.50%.
- **Moderate Debt Protection Metrics:** The debt service indicators of the firm have improved during FY20. The DSCR and ISCR stood at 1.53x and 1.88x during FY20, indicating the adequacy of the firm to service its debt obligations.

Credit risks:

- **Partnership Constitution:** Withdrawal of the capital by the partners for any contingency would adversely affect the capital structure of the firm.
- **Modest Financial Risk Profile:** The overall financial risk profile of the firm is modest driven by a high gearing ratio of 1.91x on the back of modest net worth base of Rs. 4.54crs (5.74crs- Analysed) during FY20, improving over FY19 levels. Any major capital withdrawal by the partner would further affect the capital structure. The TOL/TNW also stood high at 2.91x during FY20.
- **Presence in a competitive and fragmented industry and margins susceptible to price fluctuations:** The industry in which the firm operates is highly fragmented and the firm faces stiff competition from other small and unorganised players operating in the market. Due to the presence of a large number of players in the market the bargaining power of the firm is limited. Also, the profit margins of the firm are susceptible to the fluctuations in the raw material prices as the prices are highly volatile and any sudden rise in prices is passed on with a certain time lag.
- **Low Current Ratio:** The current ratio of the firm has remained low over the past three years and stood at 1.08x during FY20. High inventory levels are the major driver for the low current ratio. The inventory holding days stood high at 128 days during FY20

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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



RATING SENSITIVITIES

Going forward, the ability of the firm to improve its scale of operations while maintaining adequate profitability along with efficient management of its inventory level and improving the overall financial risk profile will be key rating sensitivities.

Positive: The ratings may be upgraded in case the revenue, profitability and capital structure of the firm shows significant improvement.

Negative: The rating may be downgraded in case there is a significant deterioration in the business revenue, working capital cycle and financial risk profile of the firm.

LIQUIDITY POSITION

Stretched:

Liquidity Profile is stretched indicated by a low current ratio of 1.08x as of March 20. The bank limits are utilised to the extent of ~98% on average. The net cash accruals, stood at Rs 1.15crs for FY20 and are estimated to be ~Rs 1.00 cr, which is sufficient to discharge the maturing debt obligations. The firm's cash and cash equivalents stood at Rs. 0.09 crs as of 31 March 2020.

COMPANY PROFILE

Ambica Aluminium is a partnership firm with its registered office in Kolkata and is engaged in the manufacturing and trading of aluminium extruded products with its manufacturing unit located in Balaghat, Madhya Pradesh. Mr. Mahendra Tank, Ms. Hansa Tank and Mr. Shashank Tank are the partners in the firm. The firm caters to PAN India and has its customers spread over 16 States in India. The firm procures raw material in bulk quantity from wholesalers in Madhya Pradesh, Maharashtra, etc.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	2020	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	34.10	38.01
EBITDA	₹ Cr	2.09	1.68
PAT	₹ Cr	0.15	0.15
Tangible Net worth	₹ Cr	4.54	4.12
Tangible Net worth (A)*	₹ Cr	5.74	5.30
Total Debt/Tangible Net worth	Times	1.91	2.21
Total Debt/Tangible Net worth (A)*	Times	1.30	1.49
Current Ratio	Times	1.08	1.09



*Adjusted for the USL

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument /Facility	Current Rating			Rating History		
	Tenure	Amount (₹ Crs)	Rating	March 2020	2019	August 2018
Fund Based Working Capital	Long Term	6.00	BWR B+ Stable Upgraded	BWR B Stable Downgraded Issuer Not Co-operating*	-	BWR B+ Stable Upgraded
Term Loan		1.90				
Total		7.90	INR Seven Crores and Ninety Lakhs Only			

*Issuer did not co-operate. Based on the best available information.

Note: The rating was moved to rating not reviewed in August 2018

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

For any other criteria obtain hyperlinks from website

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Annexure I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Central Bank of India	Working Capital	6.00	-	6.00
2		Term Loan	1.90	-	1.90
	Total	INR Seven Crores and Ninety Lakhs Only			7.90

For print and digital media

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