Rating Rationale **27 Apr 2021**

Ambuja Pipes Pvt Ltd

Brickwork Ratings removes from issuer not cooperating category and downgrades the long-term rating, with a change in outlook to negative, and reaffirms the short-term rating for the enhanced Bank Loan Facilities ratings of ₹ 55.23 Crores of Ambuja Pipes Pvt Ltd.

Particulars:

Facilities Availed	Amount (₹ Crs)		Tenure	Rating^	
	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)		Previous Rating 21 Oct 2020	Present Rating
Fund Based	32.44	**45.98**	**Long Term**	BWR BB Stable *Issuer Not Cooperating	**BWR BB- (Negative) Downgraded**
Non-Fund Based	9.25	**9.25**	**Short Term**	BWR A4 *Issuer Not Cooperating	**BWR A4 Reaffirmed**
Total	41.69	**55.23**	**Rupees Fifty-Five Crores and Twenty Three Lakhs Only.**		

*Issuer Did Not Cooperate; Based on best available information.
^ Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Please refer to Annexure I for bank facilities details.

RATING ACTION / OUTLOOK

The removal of the ratings from issuer not cooperating (INC) category of Ambuja Pipes Pvt Ltd (APPL or the company) factors in its cooperation in submitting relevant financial data and current update to enable BWR to carry out a review of the ratings. The downgrade in the long-term rating, with a change in outlook to negative, and reaffirmation in the short-term rating factors in the company's deteriorating liquidity profile with below-average debt protection metrics compounded by continued DSCR of less than 1x, over the past few years, as the company has been generating lower than expected cash accruals against annual repayment obligations, with debt servicing requiring continued infusion of funds by the promoters. The company also has a high overall gearing with increasing long term borrowings year-on-year.. The ratings assigned also derive comfort from the stable revenue despite the lockdowns post-Q3FY20 and moderate profitability and margins.

Impact of COVID 19: During the Covid19 pandemic, production was halted for almost 60 days. APPL applied for a moratorium from its lenders under the rules. Further, the outstanding interest and principal were serviced in Sep 2020. Additionally, it has availed an emergency line of funding (GECL) for Rs.7.75 Crs, which is included in the rated debt. OTR was not applied for.

Rating Outlook: Negative

APPL's debt protection metrics are estimated to deteriorate in the medium term, and the company has projected a DSCR of less than 1x as per the projected financials for FY21 and FY22. The liquidity of the company is projected to remain poor on account of insufficient projected accruals to service the debt servicing over the next two years. The rating outlook may be revised to 'Stable' if the business risk profile is likely to be maintained over the medium term and liquidity is improved. The rating outlook might be revised to 'Positive' if the revenues,profit and liquidity show sustained improvement.

Credit Weaknesses

- **High Gearing Level:** The overall gearing of the company continues to remain high with Debt/TNW ratio of 3.06 Times and TOL/TNW ratio of 4.25x in FY20. It is expected to deteriorate with the availment of GECL of Rs. 7.75 Cr in FY21

- **Elongated Conversion Cycle:** The company had an elongated conversion cycle of 127 days due to high days receivables of 101 days in FY20 as against conversion cycle of 112 days in FY19.

- **Below average debt servicing of the company:** Debt protection metrics of the company have deteriorated, with ISCR declining to 1.59x in FY20, as against 1.68x in FY19. DSCR also deteriorated to 0.86x in FY20, as against 0.974x in FY19, owing to a substantial increase in the interest and finance costs, which increased by 17% from Rs.5.24Crs in FY19 to Rs.6.14Crs in FY20 DSCR of the company has been consistently below 1x since FY17. Further, the cash accruals in FY20 have been inadequate to service the long-term debt and the same has been serviced via the contribution of funds from the promoters. DSCR is likely to deteriorate as the company has availed additional GECL of Rs. 7.75 Crs in FY21.

Rating Strengths:

- **Experienced Promoters and established track record of business:** The company's promoters have rich experience of more than twenty years in the pipes business that has helped them maintain better healthy relations with their customers and suppliers.

- **Stable Revenues Y-O-Y;** The company's revenue has been consistently improving , with FY20 being an exceptional year. The company witnessed a marginal decline of 3% in FY20 due to unavoidable external factors. The revenues of the company stood at Rs.101.42Crs in FY20. Further, as advised by the management, the company has registered a revenue of Rs. 105Crs upto Feb 2021.

- **Moderate Profitability Margins:** The company has moderate profitability margins with OPM of 9.62% and NPM of 1.86% in FY20 vis-a-vis OPM and NPM of 8.39% and 1.75% in FY19. The increased margins in FY20 account for various cost-cutting measures done by the company with a resultant increase in EBITDA. The same trend is likely to continue soon too.

Analytical Approach
For arriving at its ratings, BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria described below.

Rating Sensitivities:

Positive: BWR may revise the ratings upward in case APPL's if the scale of operations grows at least 15% in FY22, with an increase in tangible net worth and improvement in adjusted overall gearing to below 3x, besides improvement in profitability margins and DSCR of at least above 1x along with other metrics also favouring an upgrade.

Negative: BWR may revise the ratings downwards if there is deterioration in any key financial parameter including profitability margin, gearing or debt protection metrics or if operating income estimated for FY22 is not likely to be achieved.

Liquidity: Poor

The company has an average utilization of 99% in the last 6 months. The company has been generating an average EBITDA of Rs.8.22Crs for the year FY17~20 against the average interest cost of Rs.5.35Crs for the same period. Further, the company has been generating lower than expected cash accruals of Rs.3.12Crs in FY20 against the repayment obligation of Rs.4.61Crs, however, the servicing has been regularly done via need-based funding via promoters. Further, the company has a COVID emergency credit line (GECL) of Rs.7.75Crs, providing a cushion to the current stretched liquidity position of the company.

About the Company
Ambuja Pipes Private Limited was incorporated in 1999 as a Private Limited company. The registered and corporate office of the company is in Jaipur. The company is in the manufacturing of ERW pipes, GI Pipes, PSR (Pressed Steel Radiators with a manufacturing facility based out in Jaipur. AAPLwas founded by Mr Vishnu Kumar Agarwal and is currently managed by Ms Urvashi Aggarwal, Managing Director, and Mr Bharat Agarwal, Director.

Key Financial Indicators:

Particulars	FY19 (A)	FY20 (A)
Total Operating Income (Rs. Crs)	104.92	101.42
EBITDA (Rs. Crs)	8.80	9.75
PAT (Rs. Crs)	1.84	1.88
Tangible Net Worth (Rs. Crs)	13.32	15.20
Gearing (TOL/TNW) Ratio (times)	4.75	4.25
Current Ratio (times)	1.22	1.26

Status of non-cooperation with previous CRA (if applicable)- Nil

Any other information: Nil

Rating History for the last three years (including withdrawal and suspended)

<table>
<tr><th rowspan="2">Facility</th><th>Rating Assigned (2021)</th><th colspan="3">Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable.</th></tr>
<tr><th>Tenure</th><th>21 Oct 2020</th><th>20 Aug 2019</th><th>2018</th></tr>
<tr><td>BLR</td>
<td><table><tr><td>FB</td><td>45.98</td><td>BWR BB- (Negative)</td></tr><tr><td>NFB</td><td>9.25</td><td>BWR A4</td></tr><tr><td>Total</td><td>55.23</td><td></td></tr></table></td>
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*Issuer Non-cooperation, based upon best available information.

Hyperlink/Reference to applicable Criteria

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

Analytical Contacts	
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Ambuja Pipes Pvt Ltd
ANNEXURE I
Details of Bank Loan Fac-ilities rated by BWR

S.no	Type of Facility	Long Term	Short Term	Total (Rs. Crs)
1	Term Loan	13.78	-	13.78
2	CC (Sub Limit of PC)	24.45	-	24.45
3	GECL	7.75	-	7.75
4	ILC/FLC	-	9.25	9.25
Total				**55.23**

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