

**ASSAM ROOFING LIMITED**

**Brickwork Ratings reaffirms at BWR A- (Stable)/A2+, the long-term and short-term ratings, respectively, for the reduced bank loan facilities of Assam Roofing Ltd. aggregating Rs. 68.50 Crs.**

**Particulars:**

Facilities*	Amount (Rs. Crs)		Tenure	Rating**	
	Previous	Present		Previous (Feb 2019)^	Present
<b>Fund Based</b>	<b>81.80</b>	<b>65.00</b>	<b>Long Term</b>	<b>BWR A-, Stable, Reaffirmed</b>	<b>BWR A-, Stable, Reaffirmed</b>
<b>Non Fund Based</b>	<b>10.00</b>	<b>3.50</b>	<b>Short Term</b>	<b>BWR A2+, Reaffirmed</b>	<b>BWR A2+, Reaffirmed</b>
<b>Total</b>	<b>91.80</b>	<b>68.50</b>	<b>Rs. Sixty Eight Crores and Fifty Lakhs Only</b>		

\* Details of bank loan facilities are provided in Annexure-I

\*\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

^Moved to Ratings not Reviewed category on 10/2/2020

**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 19, relevant data to the extent available for FY 20, projected financials upto FY 21, publicly available information, and information/clarifications provided by the company’s management and its bankers to arrive at the present ratings.

BWR has reaffirmed **BWR A-** with a **Stable** outlook for the long-term bank loan facilities aggregating Rs. 65.00 Crs and **BWR A2+** for the short-term bank loan facilities aggregating Rs. 3.50 Crs of the company (total amount rated Rs. 68.50 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 geographic concentration of the company's operations, susceptibility of operating profit margins to volatility in input costs and intense 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, provides substantial cost and marketing benefits to ARL.
- **Group support:** The group, promoted by Mr Bhagirath Pasari and family, consists of five companies, namely, Assam Roofing Limited, North East Roofing Private Limited, Afflatus Trading Private Limited, PDP Steels Limited and Assam Enterprise LLP, of which Assam Enterprise Ltd. is debt-free. PDP Steels Ltd. manufactures CR coils and CR sheets, which constitute important raw material for manufacturing Galvanized Steel Sheets (GSS) for the roofing industry, and supplies a significant portion of the requirements of ARL. ARL also utilises the services of another group company, namely 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 who are 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 that are 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 19 stood healthy, marked by total operating income of Rs. 366 Crs, tangible net worth of Rs. 92.90 Crs, the ISCR at 3.77x and total debt to tangible net worth at 0.75x. As per the provisional figures

for FY 20, total operating income is reported at Rs. 347 Crs.

- **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 days 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:**

- **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 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.
- **Industry characterised by intense competition:** The company's scale of operations is relatively moderate, which in turn limits its operational and financial flexibility. The roofing sheet industry is characterised by intense competition from both organised and unorganised entities on account of low entry barriers due to a relatively low capital requirement. However, the risk is partially offset by the company's well-established presence in the Northeastern region, and the 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. 12.94 Crs in FY 19, after meeting interest obligations. As per the estimates for FY 20 and projections for FY 21, the cash accruals are expected to be Rs. 11.79 Crs and Rs. 13.17 Crs respectively, after meeting its expected repayment obligations. The average utilisation of the sanctioned working capital limits for ARL for the past twelve months ended March 2020 stood below 50%. The company has not availed the RBI Covid-19 moratorium and has been servicing the obligations regularly. Since the company is operational, the operating expenses, along with the repayment obligations, would be met through its operating income.

### **COMPANY PROFILE**

Incorporated in 1972, Assam Roofing Limited (ARL) runs under the directorship of Mr. Bhagirath Pasari, Mr. Sajan Kumar Pasari, Mr. Arvind Prasad and Mr. Indu Adukia. ARL manufactures asbestos cement sheets and galvanized steel sheets 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 Assam Roofing Limited (ARL), North East Roofing Pvt. Ltd (NERPL), PDP Steels Limited (PDPSL), Afflatus Trading Pvt. Ltd (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. 395.84 Crs, and the TNW stood at Rs. 93.48 Crs in FY 19.

## KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19 (Audited)	FY18 (Audited)
Operating Revenue	Rs. Crs	365.91	445.96
EBITDA	Rs. Crs	20.19	31.32
PAT	Rs. Crs	6.01	16.98
TNW	Rs. Crs	92.90	86.95
Total Debt/TNW	Times	0.75	0.55
Current Ratio	Times	1.67	1.81

**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 (June 2020)			Rating History		
	Tenure	Amt (Rs. Crs)	Rating	7/2/19 <sup>^</sup>	26/3/18	5/4/17
Fund Based (FB)	Long Term	65.00	BWR A-, Stable, Reaffirmed	BWR A-, Stable, Reaffirmed	BWR A-, Stable, Reaffirmed	BWR A-, Stable, Reaffirmed
Non Fund Based (NFB)	Short Term	3.50	BWR A2+, Reaffirmed	BWR A2+, Reaffirmed	BWR A2+, Reaffirmed	BWR A2+, Reaffirmed
<b>Total</b>		<b>68.50</b>	<b>Rs. Sixty Eight Crores and Fifty Lakhs Only</b>			

<sup>^</sup>Moved to Ratings not Reviewed category on 10/2/2020

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

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

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### 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 LC/BG	65.00 -	- 3.50	65.00 3.50
<b>Total (Rupees Sixty Eight Crores and Fifty Lakhs Only)</b>					<b>68.50</b>



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