Brickwork Ratings assigns rating for the Bank Facilities of ₹ 13.30 Crores for Aishloni Copper Alloys Pvt Ltd (ACAPL)

Bank Loan Rating: BWR BB/A4	Outlook : Stable

Brickwork Ratings (BWR) has assigned the rating of **BWR BB** (Pronounced BWR double B) with a stable outlook for the long term Bank credit facilities of Rs.9.80 Crores and **'BWR A4'** (Pronounced BWR A Four) for the Short term Bank credit facilities of Rs.3.5 Crores of "**Aishloni Copper Alloys Pvt Ltd.**" ("ACAPL" or "the Company")

Credit facilities with **'BWR BB'** rating are considered to have **moderate risk** of default regarding timely servicing of financial obligations. Credit Facilities with **'BWR A4'** rating are considered to have **minimal degree** of safety regarding timely payment of financial obligations. Such instruments carry very high credit risk and are susceptible to default.

The assigned ratings, factors in the promoter's long standing experience in the copper related business, established relationship with reputed clients, access to cheap power and fiscal incentives given by the government in the form of sales tax exemptions and income tax rebate all of which support profitability. The ratings also favorably factors in healthy demand outlook for copper products on account of growth in demand from key user segments.

The ratings are however constrained by current small scale of operations with limited extent of value addition leading to lower profitability, high working capital borrowing utilization. The ratings are also constrained by vulnerability to demand fluctuations due to cyclical nature of its key consuming industries and limited pricing flexibility due fragmented nature of the industry.

Background

Established in 2000, ACAPL was initially engaged in trading of copper & copper alloys metals and textiles products. In 2004, ACAPL started undertaking job work for manufacturing of copper & copper alloys pipes, tubes, bars and rods with an installed capacity of 800TPA at rented premises in Silvassa. ACAPL in 2008 has setup another production unit at AMLI, Silvassa, to increase the capacity from 800TPA to 1600TPA. The total installed capacity is now entirely being used for own production with a capacity utilization rate of 75%.

ACAPL's manufacturing unit is furnished with advanced machines such as extrusion press equipped with a piercing system that enables it to extrude tubes from pre-defined & solid billets. The manufacturing unit also has a laboratory facility with uniform testing facility for both raw materials and finished products.

Product profile of ACAPL consists of Deoxidized High Phosphorus (DHP), Electrolytic-Tough-Pitch (ETP) grade copper tubes and brass tubes of various description and specification. ACAPL's products are manufactured in adherence to American Society for Testing and Materials (ASTM), Deutsches Institut für Normung (DIN; german institute for standardization) and British standard (BS).

The products manufactured by ACAPL find usages in various application like Heat Exchanger, Radiator, Farm Equipment, Air Conditioning, Refrigeration, Solar Energy Industry, electronics, cooling equipment's, petrochemical industry, marine application, gas sanitation, plumbing solar, furniture and architecture application etc

Financial Performance

ACAPL Operating Income (OI) grew by CAGR of 21% for the last three years from FY10 to FY12. During FY12, OI of the company grew by 39.5% to Rs.64.06cr. Growth in OI was supported by increase in sales volume and moderate increases in copper prices. The operating profit margin has remained low in range bound between 5%-5.4% in the last three financial years given the nature of the business of high volume and low margin. Operating profit margin for FY12 stood at 5.07%. ROCE improved to

13.51% in FY12 on account of higher operating profit, which registered a growth of 30% to Rs3.25cr compared to Rs2.50cr in FY11. Profit after tax remained largely stable at Rs.1.00cr. However, net profit margin declined to 1.56% in FY12.

Major portion of ACAPL's debt is in the form of secured loan. Short term debt of Rs7.65cr consists of working capital loan. Long term debt of Rs7.05cr largely consist of interest free loan (quasi equity) from director and relatives amounting to Rs4.26cr. Gearing levels though remained high, improved to 1.99x in FY12 from 2.84x in FY11 on account of higher tangible net worth attributable to equity infusion by promoters of Rs1.75cr in FY12. Adjusted gearing stands at 0.9x in FY12. The coverage indicators are modest with Interest service coverage ratio at 2.3x, and debt service coverage ratio at 0.91x for FY12. The highlights of financial performance are in the Annexures.

Management Profile

ACAPL is promoted by Mr. Sunil Mardia who has over two decades of experience in the industry. All the directors are well qualified and are involved in strategic growth and vision for the company.

Rating Outlook:

Going forward scaling up of the business with rise in revenues and higher profitability and effective management of working capital remain the key rating sensitivities.

Key Financials:

Amts Rs. Cr	2010	2011	2012
Operating Income	36.17	45.90	64.06
OPBITDA	1.84	2.50	3.25
PAT	0.83	1.05	1.00
Operating Profit Margin	5.08%	5.44%	5.07%
Net Profit Margin	2.29%	2.28%	1.56%
Tangible Net worth	3.64	5.11	7.39
Total Debt	11.76	14.50	14.70
Total Debt /Tangible Net worth (times)	3.23	2.84	1.99
Interest service coverage ratio (times)	2.42	2.15	2.57

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