Rating Report

Brickwork Ratings reaffirms 'BWR BB' for the long term Bank Facilities of ₹ 13.35 Cr for Aishloni Copper Alloys Pvt. Ltd.

Brickwork Ratings (BWR) has *reaffirmed* the **Rating**[1] of '**BWR BB'** (BWR Double B) with a **Stable Outlook** for long term Bank Credit Facilities of ₹ 13.35 Cr and has *withdrawn* the Rating of 'BWR A4' (BWR A Four) for short term Bank Credit Facilities of ₹ 3.5 Cr for 'Aishloni Copper Alloys Pvt. Ltd.' *("ACAPL" or "the Company")*, since the facility is no longer available.

The rating continues to factor 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 rating also factors in healthy demand outlook for copper products on account of growth in demand from key user segments.

The rating continues to remain constrained on account of current small scale of operations with limited extent of value addition leading to lower profitability, high working capital borrowing utilization. The rating is 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 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%.

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

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Financial Performance

ACAPL's Operating Income (OI) grew by 31% to Rs.83.98Crs in FY13. Growth in OI was supported by increase in sales volume and moderate increases in copper prices. However on account of stiff competition, the Company was not able to pass on the prices to full extent to the customers resulting in lower operating profit margin. The operating profit margin declined from 4.89% in FY12 to 2.74% in FY13. In line with lower operating profit margin, Profit after Tax (PAT) also declined to Rs0.23 Cr from Rs1.Cr in FY12. Promoters has infused equity of Rs1.00Cr in FY13, resulting in higher Tangible Net worth. As of Dec2013, total operating income stood at Rs60.1Crs

Major portion of ACAPL's borrowing is in the form of secured loan. Long term debt largely consist of interest free term loan (quasi equity) from directors and relatives amounting to Rs3.31Crs and balance from banks and financial institutions. Adjusted gearing stands comfortable at 0.9x. On account of lower operating profit, Interest service coverage ratio deteriorated to 1.45x in FY13 from 2.3x in FY12. DSCR continues to remain low at in FY13.

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 improving the profitability and effective management of working capital remain the key rating sensitivities.

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Key Financials:

Amt. ₹ Cr	2011	2012	2013
Operating Income	45.90	64.06	83.98
OPBITDA	2.50	3.25	2.30
PAT	1.05	1.00	0.23
Operating Profit Margin	5.44%	5.07%	2.74%
Net Profit Margin	2.28%	1.56%	0.27%
Tangible Net worth	5.11	7.39	8.90
Total Debt	14.50	14.70	14.48
Total Debt /Tangible Net worth (times)	2.84	1.99	1.63
Interest service coverage ratio (times)	2.15	2.3	1.45