February 16, 2022

Global Aluminium Private Limited: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term - Fund-based Term Loan	10.0	8.0	Upgraded to [ICRA]A- from [ICRA]BBB+; Outlook revised to Stable from Positive
Long-term - Fund Based Working Capital	43.0	52.0	Upgraded to [ICRA]A- from [ICRA]BBB+; Outlook revised to Stable from Positive
Long-term – Unallocated	7.0	0.0	-
Total	**60.0**	**60.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action primarily factors in the significant improvement in the financial performance of Global Aluminium Private Limited (GAPL) in 9M FY2022 and ICRA's expectation that the trend is likely to continue going forward. GAPL's consolidated revenue grew by 34% in 9M FY2022 compared to FY2021 owing to higher sales volume and a significant improvement in high-margin export orders. The operating profit margin (OPM) remained comfortable at ~8% in 9M FY2022 owing to addition of certain value-added services and higher export proportion. The coverage indicators also improved with the interest cover and total debt/OPBITDA at 4.3 times and 1.6 times, respectively in 9M FY2022 compared to 3.9 times and 2.0 times, respectively in the previous fiscal. In FY2023, the revenue growth would continue to remain healthy, driven by higher sales volume. The liquidity also remained comfortable with surplus cash balance of ~Rs. 36 crore as on December 31, 2021 and sufficient cushion in the current working capital limits.

The rating continues to consider GAPL's established presence and significant experience of the promoters in the domestic aluminium extrusion industry, leading to a wide distribution network and a reputed customer base. Moreover, GAPL supplies extrusions to various end-user industries including architecture, electronics, automobile etc., lending stability to its business volumes. The rating also considers the company's comfortable financial risk profile with low dependence on external debt and healthy debt coverage metrics. The rating, however, is constrained by exposure of GAPL's margins to fluctuations in raw material prices and foreign exchange rates along with an intense competition given the highly fragmented nature of the industry.

Key rating drivers and their description

Credit strengths

Expected improvement in financial performance in FY2022 – In the current year, GAPL's revenues are expected to witness a healthy growth on the back of higher volumes from increased capacities and favourable demand outlook from the end-user industries. Its operating profits are also expected to remain healthy, driven by an increasing share of high-margin export orders, higher volumes and inventory gains. Going forward, however, the operating margins are expected to moderate but are likely to remain at healthy levels.

The company's capital structure remained comfortable with a gearing of 1 times as on March 31, 2021 and comfortable debt coverage metrics with an interest cover of ~4 times in FY2021 and 4.3 times in 9M FY2022. Further, the company's exposure to the external debt is limited. However, its working capital requirements are partly funded by high-cost unsecured loans from promoters and directors. Going forward, with revenue growth and a healthy OPM, the coverage indicators would continue to remain comfortable.

Vast experience of promoters – The company is promoted by Mr. Anil Agarwal, who has more than 21 years of experience in the aluminium extrusion industry. The promoter's rich experience has enabled the company to establish healthy relationships with various reputed customers and suppliers.

Established presence in the aluminium extrusion industry – With over two decades of operational track record and an aggregate capacity of 50,400 MTPA (enhanced from 32,400 MTPA), GAPL is an established player in the domestic aluminium extrusion industry. The company has an established market presence, and can produce diverse products, which find application in varied end-user industries.

Credit challenges

Intense competition in the industry – The company faces competition from organised and unorganised players in the fragmented aluminium extrusion industry, given the low capital investment and technical expertise required to produce extrusions with simple designs. As the company has healthy capacity in the extrusion space in India, it enjoys some pricing flexibility with customers that are not price sensitive and focus primarily on quality.

Susceptibility of margins to fluctuations in raw material prices and foreign exchange rates – Aluminium accounts for ~96-97% of the total raw material costs. With volatility in prices, GAPL's margins remain susceptible to the raw material price movement. However, the company matches sales with purchases, mitigating the raw material price risk to an extent. The company purchases aluminium in the form of ingots and billets from large domestic suppliers like Vedanta Aluminium Limited, National Aluminium Company and Hindalco Industries Limited. In addition to domestic purchases, the company imports a part of its raw material requirement. While there is a natural hedge to the extent of exports, the earnings remain susceptible to fluctuations in foreign exchange rates.

Liquidity position: Adequate

The company's liquidity position is adequate given the healthy cash generation from the business, sufficient cushion in the working capital limits (~Rs. 20 crore), low external debt repayment obligation of Rs. 4.5 crore in FY2022 and no major capex plans in the near to medium term. While the interest rate of the promoter loan is high, the payout of the same depends on the cash flow available with the company, providing further financial flexibility.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to sustain its healthy operating profitability and debt protection metrics while maintaining healthy liquidity, going forward. Specific triggers for the upgrade would be an interest coverage over 5.5 times on a sustained basis.

Negative factors – Pressure on GAPL's rating may arise if its profitability and cash accruals decline significantly due to a fall in sales volume owing to weak demand from the end-user industries. Any stretch in the working capital cycle, or large debt-funded capex exerting pressure on the liquidity position, may also trigger a rating downgrade. Specific triggers for the downgrade would be an interest coverage below 4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone financials have been considered.

About the company

GAPL, incorporated in 1997, manufactures aluminium extrusions used in architecture, electronics, electrical and automobile industries. The company's manufacturing unit is located at Kallakal village in Medak district in Telangana with an installed capacity of 50,400 MTPA (enhanced from 32,400 MTPA in FY2020). The company manufactures premium quality extrusions in different alloys using more than 15,000 dies for 8,000 different profiles. Further, the company has in-house anodising and powder coating facilities to manufacture value-added products. The day-to-day operations of GAPL are managed by its Managing Director, Mr. Anil Agarwal.

Key financial indicators

	FY2020	FY2021	9M FY2022 (Provisional)
Operating Income (Rs. crore)	454.8	455.8	610.3
PAT (Rs. crore)	6.5	24.0	34.1
OPBDIT/OI (%)	5.6%	10.6%	7.9%
PAT/OI (%)	1.4%	5.3%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.4	
Total Debt/OPBDIT (times)	3.5	2.0	
Interest Coverage (times)	2.4	3.9	4.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022) Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in		Chronology of Rating History for the past 3 years: Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 17, 2022	Sep 06, 2021	Sep 30, 2020	Apr 05, 2019	
1	Fund-based Term Loan	Long-term	8.0	8.0	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Fund Based Working Capital	Long-term	52.0		[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	
3.	Unallocated	Long-term	-		-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based Term Loan	Simple
Long-term – Fund Based Working Capital	Simple
Long-term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	7.3%	-	52.0	[ICRA]A- (Stable)
NA	Term Loan	April 2019	3.5%	September 2023	8.0	[ICRA]A- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Priyesh Ruparelia
+91 22 61693328
Priyesh.ruparelia@icraindia.com

Maitri Vira
+91 79 4027 1500
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches