

August 21, 2017

Addi Alloys Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Cash Credit	11.00 (enhanced from 10.00)	[ICRA]B (Stable); upgraded from [ICRA]B-
Letter of Credit	3.00 (reduced from 4.00)	[ICRA]A4; reaffirmed
Total	14.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating to [ICRA]B (pronounced ICRA B)¹ from [ICRA]B- (pronounced ICRA B minus) on the Rs.11.00-crore (enhanced from Rs.10.00-crore) long-term fund-based bank facilities of Addi Alloys Private Limited (AAPL). The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs.3.00-crore (reduced from Rs.4.00-crore) short-term non-fund based bank facilities of AAPL. For the purpose of arriving at the ratings, ICRA has consolidated the operational and financial risk profiles of Addi Alloys Private Limited (AAPL) and Manmeet Alloys Private Limited (MAPL), together referred to herein as 'the group'.

Rationale

ICRA's rating revision takes into account the healthy year-on-year growth of the group's operating income, which was accompanied by an increase in cash accruals. Moreover, there was an improvement in the group's interest coverage ratio in the past two years, along with an improvement in the working capital intensity. Further, the ratings continue to derive comfort from the long experience of the promoters in the steel industry and their established relationships with key customers.

The ratings, however, continue to be constrained by the group's moderate scale of operations and the vulnerability of its profits and cash flows to fluctuations in raw material prices as well as to cyclicity in the steel sector. The ratings also continue to take into account the stretched liquidity position as the company frequently overdraws its fund-based limits. Further, the ratings also remain subdued by the moderate financial profile as reflected in the moderate net worth, high gearing and moderate debt coverage indicators.

Going forward, the ability of the group to profitably increase its scale of operations, maintain a healthy capital structure as well as optimise its working capital intensity (to improve the liquidity position), will be the key rating sensitivity.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Proven track record of promoters with more than two decades of experience in the steel industry** - The promoters and their family have been involved in the steel processing business for more than two decades and have gained a thorough knowledge of the market. Such a long presence in the industry has helped the firm to establish strong relationship with its suppliers and customers.
- **Healthy growth in the operating income in the last two years** – The group’s operating income in FY2017 grew to Rs. 247.24 crore from Rs. 169.85 crore in the previous year mainly backed by increase in traded sales volumes.

Credit weaknesses

- **Stretched liquidity position as the company frequently over draws its working capital limit** – The company has high working capital requirements because of high inventory holding and stretched debtor days. This compels the company to frequently over draw its bank limits as majority of the working capital requirement is funded through bank borrowings.
- **Modest financial profile characterised by low net profitability, high gearing and thin coverage indicators** - The profitability has remained under pressure owing to low value addition, commoditised nature of the product and higher proportion on trading sales. This coupled with high debt level has led to thin coverage indicators—the NCA/Total Debt and OPBDITA/Interest standing were 5% and 1.70 times, respectively, in FY2017.

Analytical approach: For the purpose of arriving at the ratings, ICRA has consolidated the operational and financial risk profiles of Addi Alloys Private Limited (AAPL) and Manmeet Alloys Private Limited (MAPL).

Links to applicable criteria

[Corporate Credit Rating: A Note on Methodology](#)

[Rating Methodology for Entities in the Ferrous Metals Industry](#)

About the company:

AAPL was established in 1990. It manufactures ingots using scrap as major raw material. The company’s manufacturing facility is located at Ludhiana in Punjab and has an installed capacity of 18,000 tonnes per annum.

AAPL recorded a net profit after tax (PAT) of Rs. 0.72 crore on an operating income of Rs. 144.38 crore in FY2017 as against a net profit of Rs. 0.66 crore on an operating income of Rs. 85.22 crore in the previous year.

Key Financial Indicators – Consolidated (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	169.85	247.24
PAT (Rs. crore)	1.11	1.29
OPBDIT/ OI (%)	3.91%	2.70%
RoCE (%)	9.56%	8.77%
Total Debt/ TNW (times)	2.24	2.31
Total Debt/ OPBDIT (times)	6.17	7.37
Interest coverage (times)	1.59	1.70
NWC/ OI (%)	27%	23%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current rating			Chronology of rating history for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				August 2017	October 2016	September 2015	November 2014
1	Cash Credit	Long Term	11.00	[ICRA]B (Stable)	[ICRA]B-	[ICRA]C+	[ICRA]C+
2	Letter of Credit	Long Term	3.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of issuance/ sanction	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
Cash Credit	-	-	-	11.00	[ICRA]B (Stable)
Letter of Credit	-	-	-	3.00	[ICRA]B (Stable)

Source: AAPL's sanction letter.



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