

September 30, 2020

Global Aluminium Private Limited: Rating reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits- Cash Credit	43.00	43.00	[ICRA]BBB+ (Stable); Reaffirmed
Fund based limits- Term Loan	0.00	14.50	[ICRA]BBB+ (Stable); Reaffirmed
Long term – Unallocated	2.00	2.50	[ICRA]BBB+ (Stable); Reaffirmed
Total	45.00	60.00	

*Instrument details are provided in Annexure-1

Rationale

The rating considers Global Aluminium Private Limited's (GAPL's) established presence in the aluminium extrusion industry, leading to a wide distribution network, and a reputed customer base. Moreover, GAPL supplies extrusions to various end-user industries including architectural, electronics, automobile etc., lending stability to its business volumes. GAPL also exports aluminium extrusions to USA and Europe and revenues derived from exports increased in Q2 FY2021 and the same is further expected to significantly increase in H2 FY2021 because of higher demand. The rating also considers the company's healthy financial risk profile with low external debt, and healthy debt coverage metrics on as March 31, 2020 with interest coverage of 2.3 times, TOL/TNW of 1.6 times, NCA/total debt of 13.2% and DSCR of 2.0 times. Also, the company's liquidity position has been adequate characterised by healthy undrawn working capital lines.

The rating, however, is constrained by the moderation in the company's revenues in 5M FY2021 on the back of subdued domestic demand because of the Covid19 pandemic. The company's revenues declined by 38.9% in 5M FY2021 owing to the same; however, the revenues are expected to improve in H2 FY2021 with increased demand from the export customers. The rating also factors in the susceptibility of margins to fluctuations in raw material prices and foreign exchange rates along with an intense competition given the highly fragmented nature of the industry.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that GAPL will continue to maintain its comfortable capital structure and healthy debt coverage indicators.

Key rating drivers and their description

Credit strengths

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 enjoys established market presence, and capability to produce diverse product offerings which find application in varied end-user industries. Further, the company is promoted by Mr. Anil Kumar 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 relationship with various reputed customers and suppliers.

Healthy financial risk profile- The company's financial profile is healthy with low external debt; however, working capital requirements are partly being funded by high-cost unsecured loans from promoters and directors. Further, the company

debt protection metrics have been healthy on as March 31, 2020 with interest coverage of 2.3 times, TOL/TNW of 1.6 times, NCA/total debt of 13.2% and DSCR of 2.0 times. Also, the company's liquidity position has been adequate characterised by healthy undrawn working capital lines.

Credit challenges

Demand slowdown impacted the revenues in 5M FY2021- The company's operations were impacted in 5M FY2021 on the back of subdued domestic demand. The company's revenues declined by 38.9% in 5M FY2021 owing to the same, however the revenues are expected to improve in H2 FY2021 with increased demand from the export customers. Despite the stable sales volumes in FY2020, the company's revenues declined in FY2020 owing to decline in the realisation.

High competitive intensity – The company faces competition from the organized and unorganized players in the fragmented Aluminium extrusion industry, given the low capital investment and technical expertise required to produce extrusions with simple designs. Given that the company has healthy capacity in the extrusion space in India, it enjoys some pricing flexibility with customers who are not price-sensitive and whose primary focus is on quality. Moreover, it offers value additive services such as anodizing, product profiling, powder coating etc.

Susceptibility of margins to fluctuations in raw material prices and foreign exchange rates – Aluminium accounts for ~96.0-97.0% of total raw material costs, and with the prices being volatile, GAPL's margins remain susceptible to the raw material price movement. However, the company matches sales with purchases, mitigating the raw material 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 also 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 sufficient cushion of ~Rs. 15.0-18.0 crore in the working capital limits and free cash balance of Rs. 6.0-7.0 crore against the term loan repayment obligation of Rs. 4.5 crore. Moreover, the company does not have any major capital expenditure plans in the near to medium term.

Rating sensitivities

Positive triggers – ICRA may upgrade GAPL's rating if improved demand leads to an increase in the company's capacity utilisation and if the company sustains its margins while improving its debt metrics. Specific credit metric that could lead to a rating upgrade is adjusted interest coverage (adjusting for interest on subordinated unsecured promoter loans) above 4.0 times.

Negative triggers – Pressure on the rating could arise if GAPL's operational and financial profiles deteriorate significantly because of the Covid-19 pandemic or subdued demand. Also, any further large capital expenditure impacting the company's overall capital structure, sizeable moderation in coverage indicators, or a deterioration in the liquidity risk profile could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

GAPL, incorporated in 1996, manufactures aluminium extrusions used in architectural, electronics, electrical and automobile industries. The company's manufacturing unit is located at Kallakal village of Medak district 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 Kumar Agarwal.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 7.7 crore on an operating income of Rs. 454.0 crore compared to a net profit of Rs. 12.8 crore on an operating income of Rs. 483.6 crore in the previous year.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	483.6	454.0
PAT (Rs. crore)	12.8	7.7
OPBDIT/OI (%)	6.5%	5.9%
PAT/OI (%)	2.6%	1.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.6
Total Debt/OPBDIT (times)	2.3	3.3
Interest Coverage (times)	3.4	2.3

Source: Global Aluminium Private Limited; *Provisional numbers for FY2020

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

S N	Name of Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the Past 3 years		
			Rated amount	Amount outstanding	Month-year & Rating	Month- year and Rating in		
			(Rs. crore)		September 30, 2020	FY2020	FY2019	FY2018
						April 05, 2019	-	-
1	Fund Based-Cash Credit	Long- term	43.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Fund Based-Term Loan	Long- term	14.50	-	[ICRA]BBB+ (Stable)	-	-	-
3	Unallocated	Long- term	2.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-

Source: Global Aluminium Private Limited; Amount in Rs. Crore

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	43.00	[ICRA]BBB+ (Stable)
NA	Term Loan	April 2019	8.6%	September 2023	14.50	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	2.50	[ICRA]BBB+ (Stable)

Source: Global Aluminium Private Limited

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