

Alpha Services

	Amount (Rs. Crore)	Rating Action
		May 2016
Fund Based Limits	18.00	[ICRA]BBB- (Stable) <i>reaffirmed</i>
Non Fund Based Limits	20.65 (from 12.00)	[ICRA]A3 <i>reaffirmed</i>
Total	38.65 (from 32.00)	

ICRA has reaffirmed the long-term rating at [ICRA]BBB- (pronounced ICRA Triple B minus) and the short-term rating at [ICRA]A3 (pronounced ICRA A Three) for the Rs. 38.65 Crore¹ (enhanced from Rs 32.00 Crore) Lines of Credit of Alpha Services (“AS” or “the firm”)[†]. The outlook on the long term rating is “Stable”.

The reaffirmation of ratings takes into account the long standing experience of AS’ management in the construction equipment industry and its strong relationships with its customers that have awarded repeat orders, even amidst a slowdown in the industry. The firm has a well-established customer base, consisting of reputed construction companies like Larsen & Toubro Limited (L&T), government clients like Bharat Heavy Electricals Limited (BHEL), and telecom giants like Bharti Airtel. This strong customer base, and AS’ established relationships with them, facilitates repeat orders and a healthy order book for the firm, and imparts strength to the credit rating by improving revenue visibility. ICRA also takes note of the firm’s technical tie-ups with a number of overseas players like China based Henan Weihua Heavy Machineering Company Limited and Portugal based Soima SA, that supports in its ongoing efforts to expand its product portfolio. The ratings also factor in the firm’s increased focus on the higher margin high tonnage crane segment and the expected improvement in operating profitability as the proportion of the same in the revenue mix increases in the medium term.

The ratings, however, continue to be constrained by the high cyclicity inherent in the construction equipment industry, and the resultant vulnerability of the firm’s revenues to demand slowdowns in the industry. The ratings also factor in the regular withdrawals of capital by the promoter-partners of the firm in recent years, which have resulted in weak cash accruals and consistent weakening of Net Cash Accruals /Total Debt. With the proportion of internal accruals retained in the business being low for three consecutive fiscals, the reliance of the firm on creditors for funding working capital requirements and on external debt for funding capital expenditure has increased. ICRA also takes note of the increased proportion of export revenues in the firm’s revenue mix, which exposes it to foreign exchange rate fluctuations as the firm does not actively hedge its receivables.

Over the medium term, the ratings will be dependent on the firm’s ability to maintain healthy revenues and a stable financial risk profile through the cyclicity of the construction equipment industry. While the firm’s focus on high tonnage cranes will improve profitability in the near term, its ability to maintain healthy profitability, especially during periods of cyclical downturn will remain critical. The firm’s ability to generate sufficient cash accruals through its operations, retain the same in the business, and fund its increased working capital requirements through these internal accruals, will be critical to maintaining its liquidity position. These remain key rating sensitivities and will be monitored.

Company Profile

Alpha Services was promoted as a light engineering unit by Mr. J.A. Gandhi in the year 1982 and is currently managed by Mr. Ragan J. Gandhi. Alpha Services primarily caters to the needs of construction, heavy earth moving and material handling industry. It is engaged in the manufacturing (including erections of fabricated structures) of mobile tower cranes, telecom towers and EOT/Goliath cranes. Besides this, they are also authorised distributors for some OEMs like Escorts Construction Equipment Limited and Sandvik, Finland. The firm operates through two plants located in the RIICO Industrial Area of Bhiwadi (Rajasthan).

¹ 100 lakh = 1 crore = 10 million

[†]“For complete rating definition please refer to the ICRA website www.icra.in or any of the ICRA Rating Publications”



Recent Results

As per provisional financials, AS reported a PAT of Rs 4.2 Crore and an OPBITDA of Rs 8.9 Crore on an Operating Income of Rs 87.5 Crore in FY2016. As per audited financials, the company reported an operating income of Rs 92.6 Crore, OPBITDA of Rs 9.5 Crore, and PAT of Rs 4.5 Crore during FY2015.

May 2016

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