

Alstone International

February 15, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	8.00	8.00	[ICRA]BBB+(Stable); reaffirmed
Non-fund Based Limits	10.00	10.00	[ICRA]A2; reaffirmed
Total	18.00	18.00	

Rating action

ICRA has reaffirmed its long-term rating at [ICRA]BBB+ (pronounced ICRA triple B plus)¹ assigned to the Rs 8.0-crore² fund-based bank facilities and the short-term rating at [ICRA]A2 (pronounced ICRA A two) assigned to the Rs. 10.0-crore non-fund-based bank facilities of Alstone International (AI). The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation positively factors in the firm's lightly-leveraged capital structure which, along with healthy margins, results in robust debt-coverage metrics. The ratings continue to draw comfort from the significant experience of the partners in the business and the firm's established brand and nationwide dealership network. The ratings, however, are constrained by the firm's moderate scale of operations and limited growth in FY2017 owing to pressure on realisations. Further, the implementation of GST has resulted in a challenging operating environment in the current year. The ratings further continue to factor in the firm's moderate working-capital cycle, its exposure to raw material price risks and foreign exchange-fluctuation risks. AI is prone to risks associated with constitution as a partnership firm like withdrawal of capital, as was evident in the past few years. However, as expected, the level of withdrawals reduced in FY2017.

Outlook: Stable

ICRA believes that the firm will continue to benefit from the extensive experience of its partners and the established brand name. The outlook may be revised to Positive if realisations revive along with volumetric growth, resulting in substantial revenue expansion apart from reduced working-capital cycle. The outlook may be revised to Negative if demand in current operating environment weakens or cash accruals reduce or stretch in the working-capital cycle weakens liquidity.

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

² 100 lakh = 1 crore = 10 million

Key rating drivers:

Credit strengths

Diversified clientele and large dealership network along with presence of direct sales - The firm has a strong pan-India dealership network with more than 150 dealers, which helps drive its sales. Further, the top-five customers account for around 11-13% of the total sales, indicating a diversified revenue mix. The firm also makes direct sales through contract booking to clients like metros, hotels, real-estate players etc. The firm's export revenue, however, is only ~10% of its topline.

Well-established brand in the domestic market despite stiff competition - The ACP industry has various organised players with brands like Alubond, Aludecor, Alucobond, Viva, Alstrong etc. Alstone also has an established brand name in the market. The firm's products have been used by leading real-estate players, hospitality companies, Airports Authority of India (AAI), Delhi Metro Rail Corporation (DMRC) etc., which have helped in brand building. However, the competition from other large players continues to be prevalent as visible by the decline in the realisations, indicating a price-sensitive market.

Lightly-leveraged capital structure and strong financial coverage profile - The firm has healthy operating profitability of ~15% and very limited external debt on its books. Its debt mainly consists of working-capital limits. The firm's working-capital utilisation remained low in the past couple of years owing to sufficient internal accruals. The debt-coverage profile of the firm remains strong with high DSCR and interest coverage of 12.87 times and 16.93 times in FY2017. The firm's liquidity position is healthy with undrawn working-capital limits, limited capex and limited burden of term debt repayments.

Credit challenges

Exposure to inherent cyclical in demand and volatility in raw material prices - The facade engineering industry is cyclical and moves in line with the level of activity in the construction sector. The firm's scale remained moderate and has also remained at similar level of Rs. 172-crore in FY2017 as in the past year. The key raw material – aluminium coils – are mainly purchased from Chinese suppliers and have high inventory-holding period. However, there is no forward contract for mitigating the aluminium price-volatility risk, and often the inventory is not order backed. Thus, the firm is likely to remain susceptible to the inherent cyclical in the end-user industries and to significant volatility in raw material prices, over the medium term. Given the intense competition in the market, the firm may not be able to pass on any adverse impact fully to its customers. Nevertheless, the firm reported healthy gross margins over the last two years.

High inventory requirements and limited credit period from suppliers keeps working-capital intensity high - The firm's net working-capital intensity remains substantial at around 30% due to high inventory of around 140 days and debtors of around 60 days. However, the debtor concentration has been low with top-10 debtors constituting 18.6% of the total debtors as on March 31, 2017. The total debtors for more than six months comprised of 18% of total debtors though spread across 125 debtors. The firm receives limited credit from its Chinese suppliers, wherein advance payments have to be made in some cases.

Implementation of GST creates a challenging operating environment - GST of 18% is charged on aluminium composite panels (ACPs), which is higher than the earlier overall tax rate. The firm is not able to fully pass on the tax rate increase to its customers due to intense competition in the market. Overall, the last two quarters were challenging for the firm and hence the realisations were low. The firm has achieved total sales of Rs. 123 crore in 8M FY2018 on a provisional basis. The firm has launched fire-resistant ACPs in FY2018, the acceptability and prospects of which remains to be seen.

Risks associated with constitution as a partnership firm - Given AI's constitution as a partnership firm, it is exposed to risks like the possibility of withdrawal of capital by the partners and dissolution of the firm upon the death, retirement or insolvency of the partners. ICRA notes that the partners have withdrawn funds in the past, mainly for setting up a new company – 'Emerge Glass India Private Limited'. However, the withdrawals reduced substantially in FY2017, in line with expectations as the new company stabilised and did not require high promoter support.

High forex risk vulnerability with no hedging policy in place - The firm imports 90% of its raw material, while the exports sales constitute for only 10% of its total sales. Further, the firm does not use any derivatives to hedge its foreign-currency exposure. This makes the firm highly vulnerable to any adverse foreign-currency movements. However, as the inventory is not order backed, the firm is able to pass on the adverse impact of currency movements to its customers. Over the years, the firm had not faced any major forex losses. The strong financial health of the firm will continue to support, in case of any adverse fluctuations, going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm

AI, a partnership firm, was incorporated in 2004. It manufactures ACPs, which are mainly used for external cladding of commercial buildings, partitions, roofing, false ceilings, display units and signboards. It has two manufacturing facilities in Dehradun, Uttarakhand and Jaipur, Rajasthan with a total installed capacity of 40 million square feet of ACPs. Its products are largely sold through a nationwide dealership network. The firm is promoted by the Gupta and the Garg families. The Gupta family also has interests in real-estate development in the National Capital Region through the Orris Infrastructure Group.

In FY2017, the firm reported a net profit of Rs. 17.03 crore on an operating income (OI) of Rs. 172.17 crore compared with a net profit of Rs. 17.03 crore on an OI of Rs. 171.11 crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	171.11	172.17
PAT (Rs. crore)	17.03	17.03
OPBDIT/OI (%)	15.64%	15.18%
RoCE (%)	39.90%	34.71%
Total Debt/TNW (times)	0.42	0.27
Total Debt/OPBDIT (times)	0.74	0.62
Interest Coverage (times)	17.53	16.93
NWC/OI (%)	28.8%	30.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 March 2016	Date & Rating in FY2015 November 2014
1 Cash Credit	Long Term	8.00		[ICRA]BBB+ (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Letter of Credit	Short Term	10.00		[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	8.00	[ICRA]BBB+(Stable)
NA	Letter of Credit	NA	NA	NA	10.00	[ICRA]A2

Source: AI

ANALYST CONTACTS

K. Ravichandran

+044-4596 4301
ravichandran@icraindia.com

Manish Ballabh

+0124-4545 812
manish.ballabh@icraindia.com

Sheetal Sharad

+0124-4545 374
sheetal.sharad@icraindia.com

Shiffali Garg

+0124- 4545 868
shiffali.garg@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
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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