

Eagle Extrusion Private Limited

February 05, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	7.53	7.00	[ICRA]B (Stable); reaffirmed
Unallocated limits	3.13	3.66	[ICRA]B (Stable)/ A4; reaffirmed
Total	10.66	10.66	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account Eagle Extrusion Private Limited's (EEPL or the firm) below-average financial risk profile, marked by modest scale of operations despite the improvement in current fiscal, low profitability, leveraged capital structure and average debt-coverage indicators. The rating also factors in the high working capital requirement of the business due to elongated receivables cycle and the high inventory holdings by the company. The ratings are further constrained by the susceptibility of the company's profitability and cash flows to the volatility in aluminium prices and the intense competitive pressures due to the highly fragmented industry structure.

The ratings, however, positively factors in the extensive experience of promoters in the aluminium extrusion industry and its well diversified product portfolio.

Outlook: Stable

ICRA expects EEPL to continue to benefit from the extensive experience of its promoters in the aluminium extrusion industry. The outlook may be revised to Positive if substantial growth in revenue and profitability and better working capital management strengthen the financial risk profile. The outlook may be revised to a Negative if any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Experience of promoters in aluminium extrusion industry - The promoters of the company have a decade-long experience in the aluminium extrusion industry. They are associated with another company, Angel Extrusion Private Limited, which is also involved in the same business.

Diversified product portfolio reduces sales concentration risk - The company manufactures hardware and architectural goods such as handrails, tower bolts, expandable grills, and door aldrops, which find application in buildings. Additionally, it also manufactures industrial goods such as aluminium pipes, electric motors, heat sinks, and electric panels, primarily for the pharmaceutical and textile industries.

Credit challenges

Modest scale of operations despite improvement in current fiscal - The company has a small scale of operations and witnessed flat revenue growth to Rs. 24.26 crore in FY2018 from Rs. 23.53 crore in FY2017. The OI is expected to improve at a healthy rate in the current fiscal, although it will remain modest.

Below-average financial risk profile - The profit margins of the company remained weak, with an operating margin of 7.38% and a net margin of 1.48% in FY2018. Owing to high debt and relatively low net worth base, the capital structure stood leveraged, with a gearing of 1.75 times and TOL/TNW of 3.58 times as on March 31, 2018. The debt coverage indicators of the company also stood moderate, with interest coverage of 1.79 times and Total Debt/ OPBDITA of 4.48 times in FY2018. Further, because of high inventory holdings and elongated receivables cycle, working capital intensity stood high as evidenced by NWC/OI of 21% in FY2018.

Profitability vulnerable to fluctuations in aluminium prices - Aluminium ingots and scrap are the key raw materials of the company; hence, fluctuations in aluminium prices impact the company's profitability. The margins and cash flows are also susceptible to demand from end-user industries, such as real estate and construction, pharmaceutical, and textiles.

Intense competition in highly fragmented industry structure - The aluminium extrusion industry is highly fragmented with numerous players, which restricts the revenue and pricing flexibility of the company.

Liquidity position

Cash flow from operations as well as free cash flows turned positive in FY2018 on the back of improvement in profitability, coupled with lower working capital requirements. The company's liquidity position remains average, as indicated by adequate cash accruals from business to support the debt repayments, positive cash flows and almost full utilisation of working capital bank limits.

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 profile of the firm.

About the company

Incorporated in 2008, EEPL manufactures aluminium profiles and sections, and other industrial products. The company's manufacturing unit is located at Surat (Gujarat) and has a total installed manufacturing capacity of 2,000 metric tonnes per annum (MTPA). The product portfolio of the company comprises hardware and architectural utilities such as handrails, expandable grills, tower bolts, window frames and sections. Additionally, it also produces industrial goods that are used in manufacturing machineries in the textile and pharmaceutical industries.

In FY2018, the firm reported a net profit of Rs. 0.36 crore on an OI of Rs. 24.26 crore, compared to a net loss of Rs. 0.34 crore on an OI of Rs. 23.53 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	23.53	24.26
PAT (Rs. crore)	-0.34	0.36
OPBDIT/ OI (%)	5.28%	7.38%
RoCE (%)	7.27%	11.22%
Total Debt/ TNW (times)	2.10	1.75
Total Debt/ OPBDIT (times)	7.15	4.48
Interest Coverage (times)	1.03	1.79

Source: EEPL's financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating February 2019	Date & Rating in FY2018 Aug 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 September 2015
1 Cash Credit	Long Term	7.00	-	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B	[ICRA]B
2 Unallocated Limits	Long Term/ Short Term	3.66	-	[ICRA]B (Stable)/ A4	[ICRA]B (Stable)/A4	[ICRA]B/A4	-
3 Term Loan	Long Term	-	-	-	[ICRA]B (Stable)	[ICRA]B	[ICRA]B
4 Non-fund based limits	Short Term	-	-	-	-	-	[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

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	7.00	[ICRA]B (Stable)
NA	Unallocated Limits	NA	NA	NA	3.66	[ICRA]B (Stable)/ A4

Source: Eagle Extrusion Private Limited

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