Press Release

Manaksia Aluminium Company Limited

November 29, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	27.78 (Reduced from Rs.34.70 crore)	IVR BBB+/ Stable (IVR Triple B plus with Stable outlook)	Reaffirmed	Simple
Long Term/Short Term Bank Facilities	90.00	IVR BBB+/Stable/IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Reaffirmed	Simple
Short Term Bank Facilities	120.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	**237.78 (Rs. Two hundred thirty-seven crore and seventy eighty lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Manaksia Aluminium Company Limited (MACL) continue to derive comfort from the long track record of the company coupled with extensive experience of the promoters in the aluminium industry and wide geographical presence with strategic plant location. The ratings also factor in the stable financial performance of the company in FY2023 and in H1FY2024 with comfortable capital structure despite marginal moderation in debt coverage indicators in FY2023 and subsequently in H1FY2024. However, these rating strengths continue to remain partially offset by susceptibility of operating margin to volatility in raw material prices, exposure to foreign currency fluctuation risk, working capital intensive nature of operations and inherent cyclicality in the metal industry.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Sustained improvement in the capital structure with improvement in TOL/TNW to below 2x
- Effective working capital management with improvement in operating cycle leading to improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators on a sustained basis
- Deterioration in the capital structure with overall gearing moderated above 1.5x and drop in interest coverage to below 1.5x
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than ~90% on a sustained basis

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record and extensive experience of the promoters in the Aluminium industry

Manaksia Limited (ML) was incorporated in 1984 in Kolkata by one Agarwal family. It was multi-divisional, and the product line included packaging products, Aluminium rolled products, galvanized steel and mosquito coils. In 2013, the Aluminium division of Manaksia Ltd. was transferred under a scheme of demerger to MACL and currently MACL is engaged in manufacturing of Aluminium rolled products in coil and sheet form as well as Aluminium alloy ingots. The promoters have a long and extensive experience of over three decades in the Aluminium industry. Currently the operations are looked after by Mr. Sunil Kr. Agrawal who is well supported by Mr. Vineet Agrawal in managing the day-to-day operations of the company. Infomerics believes that MACL will continue to benefit from the experience of the promoters in the industry and well-established relations with large players in the aluminium industry over near to medium term.

Strategic location of plant

The aluminium unit is located at Haldia, and the engineering unit is located at Bankura where the company manufactures machines and spare parts for internal consumption as well as for exports. The company has an ISO 9001:2008 certification. Further, both the plants have locational advantage of road, rail and nearby seaport facilities along with abundant skilled and unskilled labour.

Wide geographical presence

MACL revenue is mainly driven by exports to overseas countries such as Nigeria, USA, UAE, etc.

Stable financial performance in FY2023 and in H1FY2024

Total operating income (TOI) witnessed a y-o-y growth of 6.59% from Rs.437.52 crore in FY2022 to Rs.466.37 crore in FY2023 driven by significant increase in average sales realisation of aluminium rolled products manufactured by the company. Though there was a decrease in sales volume, yet the same was compensated by increase in average sales realisation per tonne in FY2023. As a result, EBITDA margin increased marginally from 6.33% in FY2022 to 6.81% in FY2023. PAT margin also increased from 1.70% in FY2022 to 1.90% in FY2023 due to exceptional gain of Rs.2.00 crore owing to waiver of unsecured loan. Without considering the exceptional gain, PAT margin moderated from 1.70% in FY2022 to 1.47% in FY2023 due to significant increase in finance cost from Rs.13.32 crore in FY2022 to Rs.16.89 crore in FY2023. The increase in finance cost is majorly attributable to increase in COVID loan and interest rates hike. Gross cash accruals moderated marginally from Rs.14.54 crore in FY2022 to Rs.14.30 crore in FY2023. TOI further decreased from Rs.240.72 crore during H1FY2023 to Rs.191.12 crore during H1FY2024 due to substantial decrease in the international prices of aluminium which have been trading near their two-year lows for the last two quarters, owing to global macroeconomic uncertainties. Additionally, the performance was also impacted due to shut down in plant for 10-12 days which resulted in loss of production in H1FY24. Despite decrease in TOI, EBITDA increased marginally from Rs.16.36 crore during H1FY2023 to Rs.16.60 crore during H1FY2024 resulting in increase in operating margin from 6.80% during H1FY2023 to 8.69% during H1FY2024 with increased contribution from high margin value added products. However, due to increase in finance cost owing to increase in interest rates, PAT margin decreased from 1.72% during H1FY2023 to 1.19% during H1FY2024. The financial performance of the company during H2FY2024 will be critical from rating perspective.

Comfortable capital structure albeit marginal moderation in debt coverage indicators in FY2023 and in H1FY24

The net worth of the company stood healthy at Rs.125.12 crore as on March 31, 2023. Total debt level of the company elevated from Rs.126.62 Crore as on March 31, 2022, to Rs.144.34 Crore as on March 31, 2023, mainly due to availment of covid loan. Despite increase in debt levels, long term debt equity ratio and overall gearing though moderated marginally from 0.34x and 1.09x respectively as on March 31, 2022, to 0.42x and 1.15x respectively as on March 31, 2023, yet remained comfortable. However, with increase in interest cost primarily due to increase in interest rates, debt protection metrics moderated with interest coverage ratio of 1.88x in FY2023 as against 2.08x in FY2022. Total debt to GCA also moderated from 8.71x as on March 31, 2022, to 10.09x as on March 31, 2023. Nevertheless, Total indebtedness marked by TOL/TNW stood comfortable at 2.03x as on March 31, 2023 (2.20x as on March 31,2022).

Key Rating Weaknesses

Susceptibility of operating margin to volatility in raw material prices

The degree of backward integration defines the ability of the company to withstand cyclical downturns generally witnessed in the aluminium industry. Raw material is the major cost driver (constituting about 70-75% of total cost of production) and raw material prices are volatile in nature, the profitability of the company is susceptible to fluctuation in raw material prices (though the prices of finished goods move in tandem with raw material prices, there is a time lag). Further, aluminium prices are highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

Exposure to foreign exchange fluctuation

The company imports raw materials mostly from the US, Southeast Asia and European countries which on average consists of ~ 75-80 % of total procurement. Also, it exports its finished products to different countries including US, European, African and Asian counties which on an average consists of ~ 74-79% of its total sales, though the export sales were impacted in FY2023 fiscal year due to global economic scenario. Though, the company generally use forward cover to hedge its forex fluctuation risk, yet it is exposed to risks arising out of fluctuations in foreign currency.

Working capital intensive nature of operations

MACL’s operation is working capital intensive in nature as it needs to provide certain credit period to its customers in view of general practice in the industry and stock 3-4 months of inventories due to lead time involved in import of raw material (~2.5 months from overseas port to factory). The company’s operating cycle stood at 94 days in FY23 (98 days in FY22).

Exposure to inherent cyclicality of the metal industry

The metal industry is cyclical in nature and the company is also exposed to the same.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity: Adequate

The liquidity profile of the company is expected to remain adequate marked by sufficient cash accruals vis-à-vis its debt repayment obligation of Rs.9.26 crore in FY2024, Rs.10.27 crore in FY2025 and Rs.9.70 crore in FY2026 respectively. The average utilisation of fund-based limits remained moderate at ~86% during the last twelve months ended October 2023 providing moderate buffer in its working capital limits. Current ratio remained comfortable at 1.35x as on March 31, 2023.

About the Company

Manaksia Limited was incorporated in 1984 in Kolkata, West Bengal. It was multi-divisional, and the product line included packaging products, Aluminium rolled products, galvanized steel and mosquito coils. In 2013 the Aluminium vertical of Manaksia Limited was transferred under the scheme of demerger to Manaksia Aluminium Company Limited (MACL). MACL is primarily engaged in the manufacturing of value-added Aluminium products such as Aluminium Rolled Sheets / Coils, Aluminium Patterned Sheets, Aluminium Roofing Sheets, Aluminium Flooring Sheets, Aluminium Alloy Ingots. Its installed capacity is 25800 MT per annum. The products are widely used in the construction and transportation sector, automobiles, consumer durable sector, etc.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023	H1FY2024
	Audited	Audited	Unaudited
Total Operating Income	437.52	466.37	191.12
EBITDA	27.69	31.77	16.60
PAT	7.46	8.87	2.28
Total Debt	126.62	144.34	152.08
Tangible Net worth (including quasi equity)	116.29	125.12	127.07
EBITDA Margin (%)	6.33	6.81	8.69
PAT Margin (%)	1.70	1.90	1.19
Overall Gearing Ratio (x)	1.09	1.15	1.20

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22		Date(s) & Rating(s) assigned in 2020-21
					October 26, 2022	January 11, 2022	September 09, 2021	May 14, 2020
1	Term loan	Long Term	27.78 (Reduced from Rs.34.70 crore)	IVR BBB+ / Stable	IVR BBB+ / Stable	IVR BBB/ Stable	IVR BBB under credit watch with developing implication	IVR BBB+/ Stable
2	Cash Credit*	Long Term /Short Term	90.00	IVR BBB+/Stable/IVR A2	IVR BBB+/Stable /IVR A2	IVR BBB/ Stable	IVR BBB under credit watch with developing implication	IVR BBB+/ Stable
3	Letter of Credit	Short Term	117.50	IVR A2	IVR A2	IVR A3+	IVR A3+ under credit watch with developing implication	IVR A2
4	Bank Guarantee	Short Term	2.50	IVR A2	IVR A2	IVR A3+	IVR A3+ under credit watch with developing implications	IVR A2

** Cash credit limit is rated under long term/short term rating as short-term facilities like PC/PCFC/FBP/FBD are sublimit to Cash Credit.*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan/GECL	-	-	Varied Last maturity date is May, 2029	27.78 (Reduced from Rs.34.70 crore)	IVR BBB+ / Stable
Cash Credit	-	-	-	90.00	IVR BBB+ / Stable/ IVR A2
Letter of Credit	-	-	-	117.50	IVR A2
Bank Guarantee	-	-	-	2.50	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-MACL-nov23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.