

March 23, 2023

Maan Aluminium Limited: [ICRA]BBB+ (Stable)/[ICRA]A2; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based limits – cash credit	30.00	[ICRA]BBB+(Stable); assigned
Long-term – Fund based limits – unallocated limits	0.45	[ICRA]BBB+(Stable); assigned
Short-term – Fund based limits – bills discounting	60.00	[ICRA]A2; assigned
Short-term – Non-fund-based limits – Bank Guarantee	14.55	[ICRA]A2; assigned
Total	105.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings favourably factor in Maan Aluminium Limited's (MAL) established presence and significant experience of the promoters in the aluminium trading as well as aluminium extrusion industry, leading to a wide distribution network, and a reputed customer base. Moreover, MAL supplies extrusions to various end-user industries including architectural, solar, hardware etc., lending stability to business volumes. The ratings also consider the company's healthy financial risk profile with a consistent growth in revenues and operating margins, a healthy capital structure, and comfortable debt coverage metrics. ICRA notes that the company's operating income surged 42% to Rs. 581.2 crore in FY2022 compared to the previous year owing to a healthy increase in sales realisation along with an increase in export sales volume, which are high margin accretive. ICRA's expects that the trend will continue in the near future with MAL reporting revenues of ~Rs. 550 crore and an operating margin of 9.2% in 9M FY2023 (vis-à-vis 5.7% in FY2022) owing to higher sales volume with increased capacities, addition of certain value-added products and a significant improvement in high-margin export orders. Besides, the proportion of trading sales in revenues has reduced to 43% in 9M FY2023 from ~75% in FY2018 owing to higher volatility and low profit margin in the trading business and more focus towards manufacturing business. Also, some of the debtors from the trading business remain stuck for more than three years. ICRA also notes that increasing proportion of the high-margin export business is likely to keep the profitability healthy, going forward. The coverage metrics are projected to remain strong, supported by continuation of healthy profit margins and low leverage level.

The liquidity also remained comfortable with sufficient cushion in the current working capital limits. However, the rating is constrained by the susceptibility of margins to fluctuations in the raw material prices and foreign exchange rates and intense competition given the highly fragmented nature of the industry.

A Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that MAL will continue to maintain its comfortable capital structure and healthy debt coverage indicators and will benefit from increased production capacities.

Key rating drivers and their description

Credit strengths

Consistent improvement in financial performance, which is likely to sustain in future; increased proportion of high-margin export business likely to keep operating margin healthy – The company's operating income surged 42% to Rs. 581.2 crore in FY2022 against Rs. 408.4 crore in FY2021 owing to a healthy increase in sales realisation along with an increase in export sales volume, which are high margin accretive. ICRA expects that the trend will continue in the near future with MAL reporting

revenues of ~Rs. 550 crore and an operating margin of 9.2% in 9M FY2023 owing to higher sales volume with increased capacities, addition of certain value-added products and a significant improvement in high-margin export orders.

Low external debt, healthy coverage indicators and adequate liquidity position characterised by healthy undrawn working capital lines – The company's debt primarily constitutes working capital borrowings and the capital structure remained low with a gearing of 0.7 times and total debt to OPBDITA of 1.3 times in H1 FY2023 against a gearing of 0.8 times and TD/OPBDITA of 2.0 times in FY2022. Further, the debt coverage metrics remained strong with an interest coverage ratio above 13 times and DSCR above 10 times in H1 FY2023. The coverage metrics are projected to remain strong going forward, supported by continuation of healthy profitability margins and low leverage level.

Established presence in the aluminium extrusion industry – With two decades of operational track record and an aggregate capacity of 12,000 MTPA, MAL is an established player in the domestic aluminium extrusion industry. The company has an established market presence, and can produce diverse products, which find application in varied end-user industries. Further, the company is an exclusive distributor of Hindalco for trading of aluminium billet/ingot and wire rod in North India and South India (ex-Hyderabad).

Established relationships with dealers and customers – The company is promoted by Mr. Ravinder Nath Jain, who has over three decades of experience in the aluminium trading and extrusion industry. The promoter's rich experience has enabled the company to establish healthy relationships with various reputed customers and suppliers.

Credit challenges

Intense competition in the industry – The company faces competition from organised and unorganised players in the fragmented aluminium extrusion industry, given the low capital investment and technical expertise required to produce extrusions with simple designs. As the company has healthy capacity in the extrusion space in India, it enjoys some pricing flexibility with customers that are not price sensitive and focus primarily on quality.

Margins susceptible to fluctuations in raw material prices and foreign exchange rates – Aluminium accounts for the major portion of the total raw material costs and the price volatility keeps MAL's margins susceptible to any fluctuation. However, the company matches sales with purchases, mitigating the raw material price 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 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. Also, the margin remains volatile in the trading business given the volatility in aluminium prices. The trading business has reduced over the years, mitigating the volatility to an extent.

Environmental and Social Risks

MAL faces social risks arising from the health and safety hazards that its operations could create for the community and might result in a backlash. However, MAL's track record of carrying out its operations responsibly over the years provides comfort. The exposure of MAL's credit profile to environmental risks emanates from the strict regulatory requirements related to waste treatment and the additional costs required to be incurred for treating and managing effluents. Lapses in adhering to the statutory pollution limits could invite fines and penalties and could impact the company's profitability. Thus, MAL's ability to remain compliant with the necessary regulatory stipulations will remain a key credit rating sensitivity.

Liquidity position: Adequate

The company's liquidity position is **adequate** given the healthy cash generation from the business, sufficient cushion in the

working capital limits (~Rs. 30 crore as on December 31, 2022), and low external debt repayment obligation of Rs. 0.36 crore in FY2023. MAL is undergoing an expansion, entailing a capex outlay of around ~Rs. 12 crore each year, which is expected to be funded by internal accruals. The company does not have any term loan.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to sustain its healthy operating profitability and debt protection metrics while maintaining a healthy liquidity, going forward.

Negative factors – Pressure on MAL’s ratings may arise if its profitability and cash accruals decline significantly due to a fall in sales volume owing to weak demand from the end-user industries. Any significant stretch in the working capital cycle, or large debt-funded capex exerting pressure on the liquidity position, may also trigger ratings downgrade. Interest coverage ratio below 4.0 times, on a sustained basis, may also prompt ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 2003 by Mr. Ravinder Nath Jain, Maan Aluminium Limited trades in aluminium ingot/billets/rods and manufactures aluminium alloy extruded products including rods and bars. The company’s plant is located in Pithampur, Madhya Pradesh with an installed capacity of 12,000 MTPA. The company exports its products and has been accredited with a Two Star Export House status. Further, the company has in-house anodising and fabrication facilities to manufacture value added products.

Key financial indicators

MAL Standalone	FY2021	FY2022	9M FY2023*
Operating income	408.4	581.2	551.0
PAT	14.8	22.0	35.5
OPBDIT/OI	6.0%	5.7%	9.2%
PAT/OI	3.6%	3.8%	6.4%
Total outside liabilities/Tangible net worth (times)	1.5	1.0	-
Total debt/OPBDIT (times)	3.0	2.0	-
Interest coverage (times)	6.3	6.7	15.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 23, 2023	-	-	-
1	Cash credit	30.00	-	[ICRA]BBB+ (Stable)	-	-	-
2	Unallocated	0.45	-	[ICRA]BBB+ (Stable)	-	-	-
3	Bills discounting	60.00	-	[ICRA]A2	-	-	-
4	Bank Guarantee	14.55	-	[ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based limits – cash credit	Simple
Long-term – Fund based limits – unallocated limits	Not Applicable
Short-term – Fund based limits – bills discounting	Simple
Short-term – Non-fund-based limits – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term – Fund based limits – cash credit	-	-	-	30.00	[ICRA]BBB+ (Stable)
NA	Long-term – Fund based limits – unallocated limits	-	-	-	0.45	[ICRA]BBB+ (Stable)
NA	Short-term – Fund based limits – bills discounting	-	-	-	60.00	[ICRA]A2
NA	Short-term – Non-fund based limits – Bank Guarantee	-	-	-	14.55	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 71501100

jayanta@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

Priyesh Ruparelia

+91 22 61693328

priyesh.ruparelia@icraindia.com

Prerna Aggarwal

+91 0124 4545 380

prerna.aggarwal1@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

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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