

# CREDIT RATING REPORT

## Parekh Aluminex Limited

September 2010



INSTRUMENTS RATED					RATINGS
Rs.92.7 Million Proposed Long-Term Bank Facility					AA-/Stable (Assigned)
Rs.1250.0 Million Non-Convertible Debentures					AA-/Stable (Reaffirmed)
Rs.1577.5 Million Cash Credit* (Enhanced from Rs.1520.0 Million)					AA-/Stable
Rs.1489.8 Million Long-Term Loan (Reduced from Rs.1500.0 Million)					AA-/Stable ( Reaffirmed )
Rs.310.0 Million Foreign Bill Discounting					P1+ (Assigned)
Rs.30.0 Million Cheque Discounting					P1+ (Assigned)
Rs.250.0 Million Packing Credit					P1+ (Assigned)
Rs.1150.0 Million Letter of Credit^ (Enhanced from Rs.800.0 Million)					P1+
*Includes working capital demand loan of Rs.345 Million					<b>Analytical Contacts at CRISIL:</b>  <b>Gurpreet S Chhatwal</b> Tel: +91-11-4250 5100 Email: gchhatwal@crisil.com  <b>Arvind L Rao</b> Tel: +91-22-3342 8278 Email: arao@crisil.com  <b>CRISIL Rating Desk:</b> Tel: +91-22-3342 3047/ 3342 3064 Email: CRISILratingdesk@crisil.com  <i>Disclaimer:</i>  CRISIL has taken due care and caution in compilation of data for this rating rationale, based upon the information provided by the issuer and also upon information obtained from sources it considers reliable. However, CRISIL does not guarantee the accuracy, adequacy or completeness of any information. CRISIL especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of the rating or the rationale. No part of this rationale may be published / reproduced in any form without CRISIL's prior written approval.  A CRISIL rating reflects CRISIL's current opinion on the likelihood of timely payment of the obligations under the rated instrument and does not constitute an audit of the rated entity by CRISIL. A CRISIL rating is not a recommendation to buy, sell or hold the rated instrument; it does not comment on the market price or suitability for a particular investor. All CRISIL ratings are under surveillance. Ratings are revised as and when circumstances so warrant. CRISIL Ratings' rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For the latest rating information on any instrument of any company rated by CRISIL, please contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (+91 22) 3342 3000 - 09.
^Interchangeable with bank guarantee up to Rs.790 Million					
Please refer to annexure for bank wise break-up of facility					
RATING HISTORY					
Date	Long-Term	Fixed Deposit	Short-Term	Rating Watch/Outlook	
June 08, 2010	AA-	-	P1+	Stable	
April 08, 2009	A+*	-	P1*	Stable	
* Initial Bank Loan Rating assigned					
CRISIL has assigned its 'AA-/Stable' rating to Parekh Aluminex Ltd's (PAL's) proposed long-term bank facilities and 'P1+' rating to its foreign bill discounting, cheque discounting, and packing credit facilities. The rating on PAL's other bank facilities has been reaffirmed at 'AA-/Stable/P1+'.					
<b>Rating Drivers</b>					
<b>Strengths</b>					
<ul style="list-style-type: none"><li>Established presence in aluminium foil container (AFC) industry, marked by strong customer base</li><li>Sound operational capabilities</li><li>Healthy financial risk profile, marked by low gearing and healthy debt protection metrics</li></ul>					
<b>Weaknesses</b>					
<ul style="list-style-type: none"><li>Working capital intensive nature of operations</li><li>Risks associated with large capital expenditure (capex) plans</li></ul>					

CRISIL Complexity Levels are assigned to various types of financial instruments. The CRISIL Complexity Levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Investors are advised to refer to the CRISIL Complexity Levels for instruments that they propose to invest in. Investors can also call the CRISIL Helpline at +91 22 3342 3047 / + 91 22 3342 3064 with queries on specific instruments.

### Rating sensitivity factors

- Maintenance of operating margins over the medium term
- Higher-than-expected debt-funded capex

### Outlook: Stable

CRISIL believes that PAL will continue to benefit from its strong market position, longstanding relationships with key customers, and efficient operations, over the medium term. The outlook may be revised to 'Positive' if PAL increases its scale of operations while maintaining its conservative capital structure. Conversely, the outlook may be revised to 'Negative' if the company's margins decline, or it contracts more-than-expected debt to fund its capex.

### Liquidity: Adequate

PAL has adequate liquidity as reflected in a healthy current ratio of about 1.44 times as on March 31, 2010. PAL reported healthy net cash accruals of Rs.754 million in 2009-10 (refers to financial year, April 1 to March 31). Its net cash accruals over the medium term are more than sufficient to meet maturing debt obligations of Rs.330 million to Rs.550 million per year during the period. Its bank limits were utilised at an average of 83 per cent for the 12 months through April 2010, reflecting the working capital intensity of its operations. The company had estimated unencumbered cash and bank balances of Rs.100 million as on March 31, 2010. CRISIL believes that PAL will be able to maintain its liquidity on the back of healthy cash accruals.

## Rationale

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Incorporated in 1994, PAL manufactures AFC, lids, covers, and allied products. The products are used in packaging food items. PAL's manufacturing units are in Dadra and Nagar Haveli. In 2005, PAL acquired a Singapore-based company to enter the Southeast Asian markets. In 2008, PAL's manufacturing units acquired an export-oriented unit status.

### The rating is driven by PAL's following strengths:

#### Established presence in AFC industry, marked by strong customer base

PAL has been in the AFC business for the past 14 years. The company manufactures AFCs, lids and covers, used mainly by the Indian Railways, and the aviation and hospitality industries for their catering requirements. The company has healthy relationships with customers such as Indian Railways, Indian Railway Catering and Tourism Corporation, Air India, Jet Airways, Emirates Airlines, and Singapore Airlines, and leading restaurants and customers from the US and UK. The company has the first mover advantage in the domestic industry and is the leading manufacturer of AFC products in the country. The company's key strength lies in its large number of moulds, and its expertise in designing and producing products for a variety of uses, across sectors. Its products are sold at a premium in states where the use of plastic is banned; the demand for its products is expected to increase as more states ban the use of plastic. Its relationship with customers, and focus on design and quality, has led to a healthy compound annual growth rate of 51 per cent in revenue over the past four years. As on May 12, 2010, it had a strong order book of Rs.10 billion.

PAL has increased its capacity over the last five years to cater to increasing demand for AFCs. The latest addition included commissioning of capex worth Rs.2.4 billion in January 2010. The company has been able to achieve high utilisation levels and has already touched a capacity utilisation of 70 per cent for its enhanced capacity. To meet the growing demand for the products, the company plans to undertake

another phase of capacity expansion involving an outlay of about Rs.5 billion, which is expected to double its existing capacity.

CRISIL believes that PAL will maintain its leadership position in the AFC segment backed by its long-standing customer relationships, strong order book position and enhancement in its capacity.

#### **Healthy financial risk profile**

PAL has a strong financial risk profile characterised by healthy net worth, moderate gearing levels and comfortable debt protection indicators. As on March 31, 2010, the company's net worth levels were estimated at Rs.3 billion while gearing was about 1 time. The company's operations are quite capital intensive; however, it has been able to maintain low-to-moderate gearing levels over the past three years despite significant additions to its asset base as a result of significant infusion of funds in the form of preference capital, which was later converted into equity, and strong cash accruals from its operations.

The company had high gearing levels, in excess of 1.4 times, prior to 2007-08, which reduced to 0.48 times as a result of conversion of Rs.1.3 billion of preference share capital during the year. These funds were deployed for funding capex and working capital requirements of the company. Subsequently, in 2008-09, PAL undertook major capacity expansion, which nearly doubled its installed capacities at an outlay of Rs.2.4 billion. Though this was funded at a debt-to-equity ratio of about 1.6 times, overall gearing of the company remained moderate at 1 time as on March 31, 2010 supported by its healthy net worth and strong profit. The increase in capacities has enabled PAL to scale up its operations and consistently increase its operating margins because of better economies of scale and thus report strong cash accruals; PAL's operating margin has increased from about 9 per cent in 2000-01 to about 17 per cent in 2009-10. Consequently, PAL's debt protection indicators are estimated to be quite strong with net cash accruals forming more than a fifth of the total outstanding debt, and an estimated interest coverage ratio of about 4 times as on March 31, 2010. Furthermore, the company's promoters have been supporting the financial risk profile by infusing unsecured loans, estimated at Rs.500 million as on March 31, 2010, which are also subordinated to bank borrowings (in line with CRISIL's criteria, the same have been considered as neither debt nor equity).

The proposed expansion over the medium term is likely to be funded by significant infusion of equity. CRISIL, however, believes that in case the company is unable to raise the requisite equity, the capex will be scaled down and the company's overall gearing will not exceed 1.2 times (including unsecured loans).

CRISIL believes that the company will continue reporting strong cash accruals from its enhanced capacities over the medium term and thus maintain its financial risk profile on the back of strong cash accruals from its core operations.

#### **Sound operational capabilities**

PAL has also been able to maintain healthy operating margins, which have been increasing consistently over the past 10 years despite its commodity-based operations. The margins have improved over the period owing to the increased scale of operations, efficient procurement of raw material and its automated operations. PAL reported an operating margin of 17.1 per cent in 2009-10, up from 9.1 per cent in 2000-01.

PAL has been able to manage the volatility in the prices of aluminium, its key raw material, aided by its procurement policy of entering into back-to-back contracts in case of large contracts and tenders (which form about 70 per cent of revenue). The company also hedges its exposure by simple forward contracts in the case of small orders. The market leadership also allows the company to pass on any increase in cost of raw material.

PAL's manufacturing operations include advanced automated machines and moulds, which enable it to minimise production time, and enhance its flexibility to interchange moulds to change the product mix. The customised, two- and four-cavity moulds enhance operational efficiency by doubling the output. The automated production of AFCs requires high-precision equipment to prevent perforation of the semi-rigid container aluminium foil that is pressed between heavy moulds. PAL has access to high quality moulds that differentiates it from smaller, unorganised players. Because of its automated production facility, PAL is able to process bulk orders while maintaining adequate quality and hygiene. As a result, it is the sole player that caters to the entire requirement of the Indian Railways besides catering to majority domestic and international airlines.

CRISIL believes that PAL will continue to benefit from its sound operational capabilities over the medium to long term.

### **The above-mentioned strengths are partially offset by the following weaknesses:**

#### **Working capital intensive nature of operations**

PAL's operations are working capital intensive; it maintains an inventory of about three months and has a similar receivables period since majority of its sales are to the Indian Railways and airlines. Against this, the company receives limited credit period from its suppliers of about 20 days. Moreover, the company is also required to pay earnest money deposits and margins while bidding for tenders because of which a significant proportion of its funds remain blocked. For example, out of the total bank balances of Rs.270 million as on March 31, 2009, Rs.180 million were encumbered towards earnest money deposit and margin money. This results in stretching of its working capital requirements, as is evident in high utilisation of its bank limits; its bank limits were utilised on an average of 83 per cent for the 12 months through April 2010.

CRISIL believes that the company's operations will remain working capital intensive over the medium term.

#### **Risks associated with large capex plans**

PAL has aggressively expanded over the last five years with additions to the gross block of more than Rs.3.6 billion, with nearly Rs.3 billion getting added in the last two years. This has resulted in a compound annual growth rate of revenue of 51 per cent over the last four years. The capex was funded with at gearing of 1.2 times. This has resulted in increase in gearing to 1 time as on March 31, 2010 from 0.46 times as on March 31, 2008.

The company is expected to have fresh capex plans of Rs.4.3 billion, which may get implemented over the next three years. The capex is expected to be funded with a debt-equity ratio of 1.2 times, with an expected equity infusion of more than Rs.1 billion. The capex is significantly large in comparison with its existing scale of operations. The large capex brings in attendant implementation and post-implementation risks.

Some of the risks associated with the capex are, however, mitigated as the capex is modular in nature and can be curtailed based on the progress of the capex. Further, in case the company is not able to raise sufficient equity, the capex is expected to be scaled down so that the balance sheet is not highly leveraged.

## Financial Profile

### Financial policy:

PAL has followed an average financial policy as reflected in gearing of 0.46 to 1.4 times over the past four years. The management intends to maintain the gearing at 1 time over the long term. The company enters into simple forward contracts to hedge its exposure to fluctuations in raw material prices.

## Financial Summary

As at/ for the year ended on March 31		2009	2008	2007
		Actual	Actual	Actual
Net Sales	Rs. Million	4213	2986	1863
Operating Income	Rs. Million	4223	2988	1865
OPBDIT	Rs. Million	727	485	298
PAT	Rs. Million	377	260	139
Net Cash Accruals	Rs. Million	491	324	196
Equity Share Capital	Rs. Million	129	129	70
Tangible Net Worth	Rs. Million	2655	2316	715
Total Debt	Rs. Million	2307	1060	1018
OPBDIT Margins	per cent	17.2	16.2	16
Net Profit Margins	per cent	8.9	8.7	7.4
ROCE	per cent	13.7	15.2	16
PBDIT / Int. & Finance Charges	Times	5.14	5.08	4.27
Net Cash Accruals / Total Debt	Times	0.21	0.31	0.19
Total Debt / Tangible Net Worth	Times	0.87	0.46	1.42
Total Debt / PBDIT	Times	3.19	2.19	3.43
Current Ratio	Times	1.46	2.73	1.81

## Annexure- Bank wise details of various facility classes

<b>A) Proposed</b>	<b>Amount (Rs. Million)</b>
Proposed Long Term Bank Facility	92.70
<b>Total</b>	<b>92.70</b>

<b>B) Term Loan</b>	<b>Amount (Rs. Million)</b>
Indian Overseas Bank	591.50
State Bank Of India	367.30
Punjab National Bank	360.00
Union Bank Of India	171.00
<b>Total</b>	<b>1489.80</b>

<b>C) Cash Credit</b>	<b>Amount (Rs. Million)</b>
Indian Overseas Bank*	535.00
State Bank Of India**	607.50
Punjab National Bank^	210.00
Union Bank Of India	225.00
<b>Total</b>	<b>1577.50</b>

\*Includes Working Capital Demand Loan of Rs.345 Million

\*\* Interchangeable with Packing Credit and Bill Discounting up to Rs.200 Million

^ Fully interchangeable with Packing Credit and Bill Discounting

<b>D) Foreign Bill Discounting</b>	<b>Amount (Rs. Million)</b>
Indian Overseas Bank	310.00
<b>Total</b>	<b>310.00</b>

<b>E) Cheque Discounting</b>	<b>Amount (Rs. Million)</b>
Indian Overseas Bank	30.00
<b>Total</b>	<b>30.00</b>

<b>F) Packing Credit</b>	<b>Amount (Rs. Million)</b>
Indian Overseas Bank	250.00
<b>Total</b>	<b>250.00</b>

<b>G) Letter of Credit*</b>	<b>Amount (Rs. Million)</b>
Indian Overseas Bank	420.00
State Bank Of India	360.00
Punjab National Bank	316.00
Union Bank Of India	54.00
<b>Total</b>	<b>1150.00</b>

*\*Interchangeable with Bank Guarantee up to Rs.790 Million*

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CRISIL rating actions are updated online on [www.crisil.com](http://www.crisil.com)