

RATING RATIONALE

07Nov2022



A Infrastructure Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 105.73 Crs. of A Infrastructure Ltd

Particulars

Facilities**	Amount (Rs.Crs.)		Tenure	Rating#	
	Previous	Present		Previous (04 Oct 2021)	Present
Fund Based	86.92	76.23	Long Term	BWR BBB/Stable Reaffirmation	BWR BBB /Stable Reaffirmation
Non Fund Based	45.00	29.50	Short Term	BWR A3+ Reaffirmation	BWR A3 + Reaffirmation
Grand Total	131.92	105.73	(Rupees One Hundred Five Crores and Seventy Three lakhs Only)		

#Please refer to BWR website www.brickworkratings.com (<https://www.brickworkratings.com>) for definition of the ratings

**Details of Bank Loan facilities,consolidation or instruments are provided in Annexure

*** Note: This rating pertains to an existing assignment received prior to 6 October 2022.

RATING ACTION / OUTLOOK

The reaffirmation in the ratings of A Infrastructure Ltd (AIL or the company) factors in a y-o-y steady growth in revenues, with improved profit , coupled with improvement in its overall financial risk profile as indicated by debt protection metrics and overall gearing, besides its adequate liquidity position. Going further, revenues are expected to improve in FY23 supported by higher demand from the rural areas, a key market for AIL, given normal monsoons leading to better crop output and thereby higher disposable rural income. Profitability is also expected to remain healthy for FY22 despite increase in raw material prices. Improvement in overall scale of operations is likely to lead to better fixed cost absorption. AIL's increasing penetration in rural markets and government thrust on rural housing; is likely to further sustain improvement in its business risk profile, and consequently a stronger financial risk profile.

The ratings continue to reflect established market position in the asbestos-cement (AC) sheets industry, wide distributor network and strong financial risk profile.

These strengths are partially offset by its exposure to intense competition from peers and substitute products and exposure to regulatory threats of ban on manufacture or use of asbestos in end-user markets and in key asbestos-producing nations, non receipt of pollution clearance certificate and legal case with Gujarat Composite Limited (GCL), vulnerability of margins to volatility in the prices of key raw materials and foreign exchange rate. BWR also notes that there are delays in the commencement of its distillery unit, which was earlier scheduled to commence operations in Dec 2022 and is now extended to Dec 2023.

Rating Outlook: Stable

BWR believes that AIL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case of substantial improvement in operating parameters. BWR may revise its outlook from 'Stable' to 'Negative' in case there is a deterioration in the financial parameters over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Consistent growth in top-line :**

The company has witnessed a steady increase in its operating revenues during the last four years and has registered a CAGR of 23.62% over FY18-FY 22. The company's revenues have been on an increasing trend with a marginal increase of 6.06% in FY22 over FY21 on account of marginal increase in selling price and also increase in volumes. Average selling price for the financial year 20-21 and FY 21-22 AIL has been registering a y-o-y increase by 7.67% backed by double-digit growth in the sale price of AC sheets. The revenue stood at Rs.285.33Cr in FY21, as against Rs.267.65Cr in FY21. The company has registered revenue of Rs.93.37Cr as against Rs.88.29Cr in Q1FY22 and Rs.80.48Cr in Q4FY22. BWR is informed that the increased usage of AC pipes in sewerage systems is backed by substantial orders from UP Jal Nigam and others.

- **The vast experience of the promoters and established track record of operations in the AC building material industry :**

The promoters of AIL have been in the Asbestos sheets industry for more than three decades. The company commenced operations in 1980 with an installed capacity of 1, 00,000 MT per annum in the ACS segment and has grown to be the second-largest player in the industry in terms of installed capacity. The company has been promoted by Mr.Sanjay Kumar Kanoria (Managing Director) and the business operations of AIL have benefited from his long-established track record in diversified businesses and the vast industry network developed over the years. This has enabled the company to expand its size and scale of operation. AIL is managed by a professional board comprising eight directors with all the directors having long-standing industry experience of more than two decades. They are supported by a team of experienced and capable professionals, having considerable experience in the segment, to look after the day-to-day operations.

- **Improved bottom lines and net profit margins :**

Driven by the increase in top lines the company coupled proceeds from the sale of industrial land at Aurangabad (Book value of Rs.3.00 Crs) of Rs.6.96 Crs with a with marginal moderation in the interest cost bottom lines of the company has increased substantially to the tune of 99% in FY22 the same stood at Rs. 12.39Cr in FY22 vis a vis Rs.6.21Cr in FY21. Further in % terms the NPM has improved 4.34% in FY22 from 2.32% in FY21.

- **Improved Debt protection metrics and overall financial gearing :**

Driven by the lower interest cost to the tune of 15.73% in FY22 vis a vis FY21. The debt protection metrics viz ISCR and DSCR of the company continues to remain moderate and has marginally improved to 2.58x and 1.93x respectively in FY22 vis a vis ISCR and DSCR of 2.22x and 1.51x respectively in FY21.

Credit Risks:

- **Delays in commencement of distillery plant :**

The company has ongoing capex for setting up of a 1 X 160 KLPD of Grain-based distillery at village Kaptangunj in Kushinagar at a project cost of Rs.64.83crore which will be funded through debt of Rs.33 crore and Rs.31.83 crore to be funded by unsecured loan from promoters/ Group entities and/ or internal accruals. AIL had expected to commence the commercial operations of the unit in Mar20; however, due to circumstances beyond its control, AIL was not able to make any progress in the project. However, the facilities are scheduled to become operational in December 2023. Commissioning of the project within the budgeted cost and time, timely financial closures and sanctioning of the debt to be availed, stabilizing the plant and achieving desired process parameters and cost efficiencies would remain key credit rating factors.

- **Vulnerability of demand to cyclical in the rural markets :**

Given the nature of the product offerings by AIL, the rural markets are the key consumers for asbestos sheets manufactured by the company. As a result, the business operations of AIL remain exposed to demand conditions of the rural economy, which in turn is dependent on monsoons, MSP movement and farm productivity. Any adverse movement in the demand for AIL's products from the rural markets could impact the revenue base and thus profitability of the company.

- **The vulnerability of margins to volatility in the prices of key raw materials and foreign exchange rate :**

With asbestos-based products dominating AIL's product profile (~91% asbestos-based products in FY2022 and FY2021), its revenues and margins are vulnerable to the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos producing countries. However, the company is expecting to improve the share of non-asbestos products in the medium term, which will act as a mitigant to the regulatory risks. Further, the key raw materials for AIL's AC products are asbestos fiber, portland cement, flyash, lime and aluminium. While the entire requirement of asbestos fibre is imported, cement is procured from various domestic manufacturers and flyash is obtained from nearby thermal power plants. AIL's margins remained vulnerable to adverse fluctuations in foreign exchange rates for the unhedged exposure due to unavailability of sufficient natural hedge due to nil export sales. Further, concerns remain on the continued availability of asbestos fiber in requisite quantity to meet its requirement in the light of environmental concerns due to its hazardous nature.

- **Ongoing litigation with Gujarat Composite Limited (GCL) and status of pollution clearance certificate. :**

A Infrastructure Limited has entered into License Agreement with Gujarat Composite Limited (GCL-Licensor) on 07.04.2005 for running their unit for manufacturing of AC Sheet and Cement manufacturing units at Digvijaynagar, Ranip, Ahmedabad for a period of 84 month on license basis, extendable to further period of 84 months on mutual consent. As per the License Agreement upon expiry of license period, the GCL would be under obligation to take over all the current assets of A Infrastructure Ltd.(Licensee) pertaining to or in connection with the operation of AC Sheet and Cement manufacturing units at their book value and make the payment if any for this to the Licensee forthwith. Further, after expiry of the license period or the extended period, the Licensee shall vacate and handover the possession of AC Sheet and Cement manufacturing units to the Licensor upon receipt of payment if any due to be received from the Licensor under this agreement. The company served notice in March, 2012 to GCL to pay all dues including book value of current assets pertaining to or in connection with the operation of AC sheet and Cement manufacturing unit as per the license agreement. However, the Licensor has failed to take over the possession of Unit by making payment of dues on expiry of the license period. Subsequently an application dated 23.05.12 was filed by Labour Union viz Gujarat Mazdoor Panchayat , the Hon'ble Industrial Tribunal Ahmedabad, has directed vide its order dated 07.06.2012 to A Infrastructure Ltd. to run the Production activities & continue to pay wages, in the same manner to all those workers who are employed and utilized by A Infrastructure Ltd for the production activities at the factory situated at Digvijay Nagar, Ranip, Ahmedabad provided that no hindrance, obstructions and the like is caused by M/s GCL and/or other authorities.

M/s GCL is party in the said proceeding and had given an undertaking to the Industrial Tribunal to this effect. In spite of notices being served to Licensor from time to time, possession of the unit has not been taken back by GCL. Based on the above facts, circumstances and uncertainty of time regarding taking back of the possession of the Unit by making payment of dues in terms of license agreement. The Amount recoverable from GCL as on

31.03.2022 is Rs.66.67Cr (PY:Rs.59.41 Crs) including amount already provided in the books Rs.17.85Cr shown under Current Assets sub heading short term loans and advances as per accounting policies consistently following by the company (Previous year Rs.59.41Cr including amount provided in the books Rs 17.85Cr). The company has filed civil suit for recovery of the amount and other reliefs in the Commercial Court, Ahmedabad. GCL has filed an appeal application u/s 11 of Arbitration Act,1996, the Commercial Court vide its order dated 13th Dec, 2017 have rejected said application. GCL, though challenged the said order dated 13.12.2017 in the High Court of Gujarat at Ahmedabad, High Court vide order dated 23rd April,2018 have dismissed said appeal. Appeal against the said order is pending in Supreme Court. No interim stay is granted by the Hon'ble Supreme Court. Although, the pollution control board has renewed the certificate valid upto 05-06-2025 in favour of GCL, the applicability and enforceability of the same to AIL is not clear in view of the ongoing litigations with GCL.

ANALYTICAL APPROACH - Standalone

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The ratings of the company are sensitive to improvement in its revenues, gross and net profit margins, working capital cycle besides sanction and disbursement of term loans and working capital debt for the timely implementation of its distillery project.

Positive: The ratings may be upgraded if the company is able to significantly improve its revenues, net worth, debt protection metrics and overall gearing coupled with the improvement in other financial parameters including its working capital cycle and commencement of distillery Unit.

Negative: The ratings may be downgraded if there is any deterioration in the financial risk profile of the company and decline in its revenues and profitability margins and if loans are not sanctioned and disbursed by lenders to ensure timely commencement of operations of its distillery unit and any negative implications of the legal case under sub judice coupled with any further delays in the tie-up of the untied portion of the bank facilities.

LIQUIDITY INDICATORS - Adequate

The liquidity of the company is comfortable, as indicated by the current ratio (CR) of 1.44x in FY22, coupled with a moderate working capital cycle to 109 days. Further, the company has been generating an average EBITDA of Rs.17Cr for the years FY 18~22 against the average interest obligation of Rs.8.39Cr for the same period. The cash accruals of the company stood at Rs.15.51Cr in FY22, further BWR expects the company to generate cash accruals of Rs.7.62Cr in FY23 which are likely to be sufficient for meeting the repayment obligation of Rs.6.15Cr in FY22. Further, the company is in process of CAPEX for setting up a distillery unit at a project cost of Rs.64.83crore which will be funded through debt of Rs.33 crore and Rs.31.83 crore to be funded by unsecured loan from promoters/ Group entities and/ or internal accruals. However, as on date the financial closures for the said project are yet to be done, the additional term loans are expected to put stress on the liquidity of the company.

ABOUT THE ENTITY

The Company was incorporated as Shree Pipes Limited on 30.08.1980 and installed a plant in 1985 to manufacture Asbestos Cement (AC) Pressure Pipes & Couplings. The company changed its name from Shree Pipes Limited to "A Infrastructure Limited" in Dec 1993. In 2005, the Company diversified its operations to A.C. Roofing Sheets at

Ahmedabad. The company is also in process to diversification by establishing a 1 X 160 KLPD of Grain-based distillery at village Kaptangunj in Kushinagar District of Uttar Pradesh.

KEY FINANCIAL INDICATORS (Standalone)

Key Parameters	Units	FY 21-22 (Audited)	FY 20-21 (Audited)
Operating Revenue	Rs.Crs.	285.33	267.65
EBITDA	Rs.Crs.	18.94	19.36
PAT	Rs.Crs.	12.39	6.21
Tangible Net Worth	Rs.Crs.	73.34	61.63
Total Debt/TNW	Times	1.09	1.19
Current Ratio	Times	1.44	1.33

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY

Nil

ANY OTHER INFORMATION

Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Facilities	Current Rating (2022)			2022 (History)		2021		2020		2019	
	Type	Tenure	Amount (Rs.Crs.)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based	LT	76.23	BWR BBB/Stable (Reaffirmation)	NA	NA	03Sep2021	BWR BBBStable (Upgrade)	31Aug2020	BWR BBB- Stable (Reaffirmation)	22Aug2019	BWR BBB- Stable (Reaffirmation)
		0.00	NA	NA	NA	04Oct2021	BWR BBBStable (Reaffirmation)	NA	NA	NA	NA
Non Fund Based	ST	29.50	BWR A3+ (Reaffirmation)	NA	NA	03Sep2021	BWR A3+ (Upgrade)	31Aug2020	BWR A3 (Reaffirmation)	22Aug2019	BWR A3 (Reaffirmation)
		0.00	NA	NA	NA	04Oct2021	BWR A3+ (Reaffirmation)	NA	NA	NA	NA
Grand Total		105.73	(Rupees One Hundred Five Crores and Seventy Three lakhs Only)								

*** Note: This rating pertains to an existing assignment received prior to 6 October 2022.

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) (<https://www.brickworkratings.com/download/ComplexityLevels.pdf>). Investors queries can be sent to info@brickworkratings.com (<mailto:info@brickworkratings.com>).

Hyperlink/Reference to applicable Criteria

- [Approach to Financial Ratios](https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf) (<https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf>).
- [General Criteria](https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf) (<https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf>).
- [Short Term Debt](https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf) (<https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf>).
- [Manufacturing Companies](https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf) (https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf).

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ANNEXURE-I

Details of Bank Facilities rated by BWR

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
1	Bank of Baroda	Cash Credit-Sanctioned	17.60	-	17.60
2	Bank of Baroda	Bank Guarantee-Sanctioned	-	4.50	4.50
3	Bank of Baroda	Letter of Credit-Sanctioned	-	5.00	5.00
4	Bank of Baroda	GECL-Sanctioned	3.40	-	3.40
5	Bank of Baroda	GECL 2.0-Sanctioned	1.80	-	1.80
6	Kotak Mahindra Bank	Corporate Home Loan-Sanctioned	8.38	-	8.38
7	Standard Chartered Bank	GECL 2.0-Sanctioned	1.94	-	1.94
8	Standard Chartered Bank	Loans against Property-Sanctioned	15.04	-	15.04

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
9	Standard Chartered Bank	Emergency Credit Line Guarantee Scheme (ECLGS)-Sanctioned	3.15	-	3.15
10	State Bank Of India (SBI)	GECL-Sanctioned	3.74	-	3.74
11	State Bank Of India (SBI)	Letter of Credit-Sanctioned	-	15.00	15.00
12	State Bank Of India (SBI)	Bank Guarantee-Sanctioned	-	5.00	5.00
13	State Bank Of India (SBI)	Cash Credit-Sanctioned	19.00	-	19.00
14	State Bank Of India (SBI)	GECL 2.0-Sanctioned	2.18	-	2.18
15	Un tied portion from consortium of banks	Cash Credit-Sanctioned	-	-	0.00
16	Un tied portion from consortium of banks	Bank Guarantee-Sanctioned	-	-	0.00
17	Un tied portion from consortium of banks	Letter of Credit-Sanctioned	-	-	0.00
Total			76.23	29.50	105.73
TOTAL (Rupees One Hundred Five Crores and Seventy Three lakhs Only)					

* Note: This rating pertains to an existing assignment received prior to 6 October 2022.

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