CARE Ratings
Professional Risk Opinion

CARE/KRO/RR/2019-20/1224

Mr. Vikram Jhunjhunwaka
Director
Century Extrusions Limited
113, Park Street
2nd Floor, N Block
Kolkata – 700 016

October 18, 2019

Confidential

Dear Sir,

Credit rating for Bank Facilities

Please refer to our letter dated September 26, 2019 on the captioned subject.

2. The rationale for the ratings is attached as an **Annexure - I**.

3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 22, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Abhishek Khemka
Sr. Manager
abhishek.khemka@careratings.com

Encl : As above

Annexure I
Rating Rationale
Century Extrusions Limited

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	58.45	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Short-term Bank Facilities	15.60	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total	**74.05 (Rs. Seventy-Four crores and Five lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Century Extrusions Limited (CEL) takes into account the stress in the liquidity profile of the group.

The rating is further constrained by stressed liquidity, susceptibility of profitability to volatility in raw material price and presence in highly competitive industry marked by limited value addition in the manufacturing process. The rating also factors in the completion of the capex project in FY20 with time overrun. The rating however continues to derive comfort from the long experience of promoters in the aluminium industry, established marketing network and long association with its customers, satisfactory capacity utilisation and financial performance during FY19 (refers to the period April 1 to March 31) and moderate capital structure with debt protection metrics.

Ability of the company to effectively manage its working capital requirements, timely receipt of subsidy amount from WB Govt., and deriving envisaged benefits from the modernization plan are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Stretched Liquidity position of the group

The liquidity position of the company was stressed in the past 12 months characterized by increasing utilization of the fund based working capital limits with maximum utilizations ranging between 90%-98%. Moreover, CEL's business is working capital intensive in nature as it has to offer 30-40 days credit period to its customer due to intense competition in the industry and also has to maintain 1 to

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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2 months inventory to execute the bulk orders on a time bound manner. The working capital cycle of CEL deteriorated to 72 days in FY19 as against 64 days in FY18 mainly due to increase in inventory holding days. Further Century Aluminum Manufacturing Co Ltd. (CAMCO), the group company of CEL has been classified as NPA due to stretched liquidity position.

Susceptibility of profitability to volatility in raw material price

Aluminium ingots and billets are the key raw material for CEL. CEL procures these materials at the price prevailing on the date of its dispatch. The aluminium industry is cyclical in nature with prices for the commodity driven by changing demand and supply conditions in the market which also has strong linkages to the global market. This results in risk of price fluctuation on the inventory of raw materials as well as finished goods. The overall working capital intensity of CEL's business is governed to a large extent by its raw material inventory which in turn is governed by its order execution cycle.

Presence in a competitive and limited value addition aluminium extrusion industry

CEL operates on a relatively moderate scale of operations in a fragmented and competitive aluminium extrusion industry which is characterized by the presence of numerous players. The entry barrier in the industry is low considering relatively low investments required in fixed assets. Hence, aluminium extrusion players have very limited scope to pass on hike in input costs to its customers. Furthermore, a large portion of demand for aluminium extrusion products comes from the cyclical construction and automobile industry making it vulnerable to economic cycles. However, CEL is one of the few organised players within the industry with diversified products offerings as per the customer requirements.

Satisfactory financial performance in FY19, albeit deterioration in Q1FY20

The total operating income (TOI) of CEL witnessed growth of ~7.29% to Rs.255.53 crore in FY19 primarily driven by increase in average sales realizations. Consequently, PBILDT margin demonstrated improvement from 4.97% in FY18 to 6.37% in FY19. PAT Margin however remained stable at 1.57% in FY19 vis-à-vis 1.55% in FY18 due to higher incidence of tax provisioning. Gross Cash Accruals (excluding subsidy) has improved and remained comfortable at Rs.8.82 crore in FY19 as against Rs.5.62 crore in FY18.

However, during Q1FY20 the company reported PAT of Rs.1.84 crore on a TOI of Rs.58.83 crore. PAT margin deteriorated to 0.82% in Q1FY20 as compared to previous fiscals. Going forward the sales realizations is expected to remain under pressure owing to muted demand across the end user segment which in turn will adversely affect the profitability and liquidity profile of the company.

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Moderate capital structure and debt coverage indicators

Capital structure of CEL remains moderate with deterioration in the overall gearing ratio from ~1.62 times as on March 31, 2018 to ~1.80 times as on March 31, 2019. Given the working capital intensive nature of business coupled with subdued industry outlook, the debt coverage indicators are expected to moderate further in the near term.

Completion of the project relating to upgradation cum modernization capex plan with time overrun

The company has successfully completed capex plan towards modernisation of its manufacturing facility in June 2019 against earlier COD of April 2019 thereby resulting in time overrun. The total project cost was Rs.14.05 crore, which was funded through debt of Rs.6.55 crore and the balance through internal accruals. Deriving the benefits therefrom shall however remain a key rating sensitivity.

Key Rating Strengths

Long Experience of promoters in aluminum industry

The group was promoted by Late Mr. M.P. Jhunjhunwala, through Century Aluminum Manufacturing Co Ltd. (CAMCO) in 1974, which is engaged in manufacturing of secondary aluminium alloys and supplying to Original Equipment Manufacturers (OEMs). CEL commenced operations in 1991 and is presently headed by Mr. Vikram Jhunjhunwala who has extensive experience of more than two decades in aluminum products business.

Established marketing network and long association with customers

The products of the company are used in the power sector, engineering and manufacturing industry, architectural works, auto industry and defense sector among others. The company presently has six branch offices (Bangalore, Chennai, Delhi, Kanpur, Kolkata & Mumbai) located across the country to cater to the customers throughout the country. Further, the company has a diversified set of customers with top 10 customers accounting for ~25% of sales in FY19 (19% in FY18). Owing to muted demand across the end user segment, the profitability of the company is projected to remain under pressure and accordingly will remain a key rating sensitivity.

Satisfactory capacity utilization

The capacity utilization (CU) of CEL has remained satisfactory at ~82% in FY19. The CU of CEL is expected to improve further in the medium term, as the company has implemented modernization plan which would enable the company to operate at higher/optimum capacity due to lesser break-downs.

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Industry Outlook: India's primary aluminum production is expected to increase by 3.7% during FY20 as all the domestic smelters are operating at full capacity. Growth in demand (including secondary demand) is likely to remain stable and is expected range around 6% to 7% during FY20. Reforms proposed by the Government of India like development of Smart Cities, Rural Electrification and a focus on building renewable energy projects under the National Electricity Policy will support the demand for Aluminium and its extruded products in the coming years. However the end user market segment shall continue to remain subdued in the medium term.

Liquidity position: Stretched

The liquidity position of the company was stressed in the past 12 months characterized by increasing utilization of the fund based working capital limits with maximum utilizations ranging between 90%-98.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1988, Century Extrusions Ltd (CEL) is part of the Kolkata based Century Group promoted by the Jhunjhunwala family. The company commenced its operations from 1991. The company is engaged in manufacturing of aluminium-extruded products, which are used in the auto industry, power sector, engineering and manufacturing industry, architectural works and defence sector among others. The company has their operating unit in Kharagpur (West Bengal) with installed capacity of 15,000 tonnes per annum. The company is presently headed by Mr. Vikram Jhunjhunwala, who has extensive experience of around 25 years in aluminum business.

Financial Performance

(Rs. crore)

For the period ended / as at March 31,	*2017*	*2018*	*2019*
	(12m, A)	*(12m, A)*	*(12m, A)*
Working Results			
Net Sales	180.55	235.92	255.13
Total Operating income	180.55	236.22	255.53
PBILDT	9.87	11.74	16.29
Interest	6.95	6.38	6.99
Depreciation	3.37	3.59	4.31

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For the period ended / as at March 31,	*2017 (12m, A)*	*2018 (12m, A)*	*2019 (12m, A)*
PBT	1.41	4.36	5.65
PAT (after deferred tax)	1.35	3.71	4.03
Gross Cash Accruals	4.78	7.86	8.82
Adjusted GCA*	3.09	5.62	8.82
Financial Position			
Equity Capital	8.00	8.00	8.00
Networth*	30.27	31.70	35.72
Total capital employed	79.99	82.95	100.02
Key Ratios			
Growth			
Growth in Total income (%)	7.51	30.83	8.17
Growth in PAT (after deferred tax) (%)	48.35	174.81	8.63
Profitability			
PBILDT/Total Op. income (%)	5.47	4.97	6.37
PAT (after deferred tax)/ Total income (%)	0.74	1.55	1.57
ROCE (%)	12.45	15.41	15.59
Solvency			
Debt Equity ratio (times)	0.14	0.14	0.30
Overall gearing ratio(times)	1.64	1.62	1.80
Interest coverage(times)	1.42	1.84	2.33
Term debt/Gross cash accruals (years)	0.91	0.56	1.20
Total debt/Gross cash accruals (years)	10.40	6.52	7.29
Liquidity			
Current ratio (times)	1.00	1.06	1.14
Quick ratio (times)	0.52	0.63	0.62
Turnover			
Average collection period (days)	41	41	43
Average inventory (days)	52	45	49
Average creditors (days)	29	22	20
Operating cycle (days)	65	64	72

A: Audited

** The company has capital subsidy (IPA and other recoveries) receivable from Government of West Bengal (GoWB) in the financial statements. However, significant amount of subsidy is yet to be received. The benefit of subsidy has been considered on cash basis for analysis purpose. Gross Cash Accruals and Tangible Net-worth have been adjusted accordingly.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	38.00	CARE BB+;

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					Stable
Fund-based - LT-Term Loan	-	-	-	12.75	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	11.00	CARE A4+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.10	CARE A4+
Fund-based - LT-Vendor financing	-	-	-	7.70	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	4.50	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	38.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (07-Jan-19)	-	-
2.	Fund-based - LT-Term Loan	LT	12.75	CARE BB+; Stable	-	1)CARE BBB-; Stable (07-Jan-19)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	11.00	CARE A4+	-	1)CARE A3 (07-Jan-19)	-	-
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.10	CARE A4+	-	1)CARE A3 (07-Jan-19)	-	-
5.	Fund-based - LT-Vendor financing	LT	7.70	CARE BB+; Stable	-	1)CARE BBB-; Stable (07-Jan-19)	-	-
6.	Non-fund-based - ST-Bank Guarantees	ST	4.50	CARE A4+	-	1)CARE A3 (07-Jan-19)	-	-

Annexure 3

Details of Rated Facilities

1. Long-term facilities

1.A. Secured Rupee term loan

Sr. No.	Lender	Rated Amount (Rs. Crore)	Remarks	Debt Repayment Terms
1.	State Bank of India	1.21	Outstanding	Incremental quarterly repayment structure with last instalment on March 2021.
2.	Punjab & Sindh Bank	7.54	Outstanding	Incremental quarterly repayment structure with last instalment in Jan 2025
3.	HDFC Bank	4.00	Outstanding	
Total Rupee term loans		**12.75**		

1B. Fund Based limits

Sr. No.	Name of Bank	Fund Based Limits		
		Cash Credit	Channel Finance	Total fund-based limits
1	State Bank of India	18.00	0.00	18.00
2	HDFC Bank	2.00	0.00	2.00
3	Axis Bank	6.50	5.00	11.50
4	Punjab National Bank	9.50	0.00	9.50
5	Yes Bank Limited	0.00	2.70	2.70
6	Proposed	2.00	0.00	2.00
	Total	**38.00**	**7.70**	**45.70**

*CC=Cash credit;

Total Long term bank facilities (1A+1B) = Rs.58.45 crore

2. Short term facilities

Sr. No.	Name of Bank	Non Fund Based Limits			
		LC	BG	FC (Derivative)	Tenure as per
1	State Bank of India	7.00	2.50	0.10	Sanctioned & tied up
2	Axis Bank	4.00	1.00	0.00	
3	Punjab National Bank	0.00	1.00	0.00	
	TOTAL	**11.00**	**4.50**	**0.10**	

Total Short term bank facilities = Rs.15.60 crore

Total rated bank facilities (1+2) = Rs.74.05 crore

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Abhishek Khemka
Group Head Contact no.- +91 (0)33-4018-1610
Group Head Email ID- abhishek.khemka@careratings.com

Relationship Contact
Name: Lalit Sikaria
Contact no. : +91 (0)33-4018-1607
Email ID : lalit.sikaria@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

(This follows our Press Release for the entity published on October 03, 2019)