Press Release

Metal Coatings(India)Limited

February 28, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 22.50 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable
Short Term Rating	SMERA A3+

** Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB**' **(read as SMERA BBB)** and short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs. 22.50 crore bank facilities of Metal Coatings(India)Limited. The outlook is **'Stable'**.

MCIL was incorporated in 1994 by Mr. R.C. Khandelwal. The company manufactures cold rolled steel strips/coils and hot rolled pickled and oiled (HRPO) steel strips/coils. The company reported an installed capacity of 25,000 metric tonnes per annum. MCIL is engaged in the manufacturing of cold rolled steel strips/coils and hot rolled pickled and oiled (HRPO) steel strips/coils. The rating reaffirmation continues to reflect MCIL's prudent financial risk profile, comfortable liquidity position and modest profitability indicators. The ratings also adequately factor in the decline in operating income on account of fall in metal prices.

Key Rating Drivers

Strengths

• **Experienced management**
SMERA believes that MCIL will continue to benefit from its experienced management. The company was promoted by Mr. R.C. Khandelwal who possesses over 40 years of experience in the industry and is supported by a strong second line of management. MCIL is expected to continue to leverage its well established relationships with marquee clients and reputed suppliers over the long run to generate economies of scale and grow its topline.

• **Prudent financial risk profile**
The rating reaffirmation continues to factor in the comfortable debt protection metrics of the company. The interest coverage ratio continued to improve to 3.20 times in FY2016 as compared to 2.25 times in FY2015 on account of improvement in operating profit margin to 4.30 per cent in FY2016 (from 3.93 per cent in FY2015). SMERA, however, believes that MCIL's ability to maintain its debt protection metrics at the current level in the light of volatility in metal prices shall remain a key credit monitorable. Further, the rating also continues to be supported by the prudent gearing of the company. The adjusted debt to equity ratio is healthy at 0.90 times on 31 March, 2016 as compared to 0.72 times on 31 March, 2015.

• **Healthy liquidity position**
The rating continues to be supported by the comfortable liquidity position of MCIL marked by low average bank limit utilisation of 63 per cent for the 12 months ended November, 2016. MCIL's ability to efficiently manage its working capital requirements over the medium term shall remain instrumental in maintaining its credit risk profile. However, SMERA further notes that continued increase in Gross Current Asset days can adversely impact the liquidity position of the company and shall remain a credit monitorable.

Weaknesses

- **Modest profitability indicators**
  The rating continues to remain constrained by the modest profitability margins due to the highly competitive and fragmented nature of the metals industry. The presence of a large unorganised market continues to put pressure on profitability indicators. Consequently, the Return on Capital Employed (RoCE) of the company further declined to 9.37 per cent in FY2016 from 10.94 per cent in FY2015. SMERA also takes note of the continued decline in operating income on account of subdued metal prices and moderation in sales volume. The operating income declined to Rs.91.53 cr in FY2016 from Rs.114.27 cr in FY2015.

- **Exposure to volatility in raw material prices**
  The rating also factors in the susceptibility of MCIL's cash flows to movement in steel prices.

Analytical Approach
SMERA has taken a standalone view of the above entity.

Outlook: Stable
MCIL is expected to maintain a stable outlook on account of its experienced management, comfortable debt protection metrics and healthy liquidity position. The outlook may be revised to Positive in case of sustained improvement in profitability margins while maintaining its working capital cycle. Conversely, the outlook may be revised to Negative in case of further decline in operating income and/or in case of adverse movement in gearing.

About the Rated Entity - Key Financials
The company reported net profit of Rs.1.51 cr on operating income of Rs.91.53 cr in FY2015-16, as compared with profit after tax (PAT) of Rs.1.41 cr on operating income of Rs.114.27 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)
ICRA has suspended the outstanding rating of Metal Coatings (India) Limited vide press release dated August 26, 2016 due to its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information
N.A.

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Complexity Level Of Financial Instruments - https://www.smera.in/criteria-complexity-levels.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm
- Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
17-Nov-2015	Cash Credit	Long Term	INR 20 CR	SMERA BBB / Stable
	Bank Guarantee/Inland	Short	INR 2.5 CR	SMERA A3+

	Letter of Credit	Term		

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A3+

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.