

Press Release

Metal Coatings (India) Limited

August 21, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE BBB**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) from **ACUITE A3+** on the Rs. 22.50 crore bank facilities of METAL COATINGS (INDIA) LIMITED. The outlook is '**Stable**'.

Metal Coatings (India) Limited (MCIL), a New Delhi-based company, is a public limited entity promoted by Khandelwal family in 1994. MCIL is engaged in the manufacturing of cold rolled steel strips or coils and hot rolled pickled and oiled (HRPO) steel strips or coils.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MCIL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

MCIL is promoted by Mr. R.C. Khandelwal, who has over 40 years of experience in the industry and is supported by a strong second line of management. The established industry connections of the management have helped MCIL in sustaining growth in operating income. The operating income of MCIL stood at Rs.154.06 crore in FY2019 as compared to 110.47 crore in FY2018. Further, the company has recorded revenues of ~ Rs.36.90 crore in Q1FY2020. Acuite believes that MCIL will continue to leverage its well-established relationships with marquee clients and reputed suppliers over the medium term.

- **Efficient working capital management**

MCIL has efficiently managed working capital cycle marked by GCA days of 80 days in FY2019 as against 107 days in FY2018. The receivables period stood at 66 days in FY2019 as against 80 days in FY2018. Inventory days stood at 15 days in FY2019 as against 26 days in FY2018. This has reflected in lower reliance on working capital limited marked by average utilisation of 25 per cent for last three months ended July 2019.

- **Healthy financial risk profile**

MCIL has comfortable financial risk profile marked by net worth of Rs. 26.70 crore as on March 31, 2019 as compared to Rs. 24.87 crore on March 31, 2018. The gearing stands healthy at 0.29 times on 31 March, 2019 as compared to 0.39 times as on 31 March, 2018. Total debt of Rs. 7.66 crore as on March 31, 2019 consists entirely of working capital borrowing from the bank. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 0.50 times as on 31 March, 2019 as against 0.59 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood healthy at 10.19 times in FY2019 as against 9.16 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) increased to 0.48 times as on 31 March, 2019 (Provisional) as against 0.28 times as on 31 March, 2018. Acuite believes that the financial risk profile of MCIL will continue to remain healthy over the medium term on account of its healthy net cash accruals and conservative leverage policy.

Weaknesses

- **Declining profitability**

The operating profitability of MCIL has declined year on year. MCIL reported operating margin of 2.84 per cent in FY2019 as against 3.59 per cent in FY2018 and 4.20 per cent in FY2017. The decline in EBITDA is due to fluctuation in raw material prices.

- **Exposure to volatility in raw material prices**

MCIL's cash flows are susceptible to movement in the steel prices. The raw material costs of the company consist of ~ 86 per cent of the total revenue. Further, on account of its modest size and highly fragmented industry, adverse price movements in the steel and metal market can result in severe deterioration in MCIL's debt protection metrics.

- **Liquidity position**

MCIL has adequate liquidity marked by healthy net cash accruals and no long-term debt obligations. MCIL generated cash accruals of Rs. 2.44 to 3.71 crore during the last three years through 2017-19, while its maturing debt obligations were Rs. 0.01-0.05 crore. The cash accruals of MCIL are estimated to remain around Rs. 4.0 to 4.9 crore during 2019-21, while its repayment obligations are estimated to be NIL. MCIL's working capital cycle is efficiently managed, which has led to lower reliance on working capital borrowings. The cash credit limit in MCIL remains utilised at 25 per cent during the last three months period ended July 2019. MCIL maintains unencumbered cash and bank balances of Rs.0.09 crore as on 31 March, 2019. The current ratio of MCIL stands healthy at 2.57 times as on 31 March, 2019 (Provisional). MCIL is not likely to incur any major capex to be funded by external borrowing. Acuite believes that the liquidity of MCIL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

MCIL is expected to maintain a 'Stable' risk profile on account of its experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of improvement in profitability margins while maintaining its working capital cycle. The outlook may be revised to 'Negative' in case of further decline in operating margins and/or in case of adverse movement in the gearing.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	154.06	110.47	97.74
EBITDA	Rs. Cr.	4.38	3.97	4.11
PAT	Rs. Cr.	3.07	2.00	1.71
EBITDA Margin	(%)	2.84	3.59	4.20
PAT Margin	(%)	1.99	1.81	1.75
ROCE	(%)	13.32	10.46	23.37
Total Debt/Tangible Net Worth	Times	0.29	0.39	0.46
PBDIT/Interest	Times	10.19	9.16	3.37
Total Debt/PBDIT	Times	1.47	2.24	2.25
Gross Current Assets (Days)	Days	80	107	121

Status of non-cooperation with previous CRA (if applicable)

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Jun-2018	Cash Credit	Long Term	INR 13	ACUITE BBB / Stable
	Bank Guarantee	Short Term	INR 1.5	ACUITE A3+
	Proposed Cash Credit	Long Term	INR 8	ACUITE BBB / Stable
28-Feb-2017	Cash Credit	Long Term	INR 20	ACUITE BBB / Stable
	Bank Guarantee	Short Term	INR 2.5	ACUITE A3+
17-Nov-2015	Cash Credit	Long Term	INR 20	ACUITE BBB / Stable
	Bank Guarantee	Short Term	INR 2.5	ACUITE A3+

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3+
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB / Stable

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About Acuité Ratings & Research:

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