

Press Release

Metal Coatings (India) Limited

October 22, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 15.00 Cr. (Reduced from Rs.22.50 crore)
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.15.00 crore of bank facilities of Metal Coatings (India) Limited. The outlook is '**Stable**'.

Incorporated in 1994, Metal Coatings (India) Limited (MCIL) is a public limited entity promoted by Khandelwal family. The company is engaged in manufacturing of cold rolled (CR) steel strips or coils and hot rolled (HR) pickled and oiled steel strips or coils with an installed capacity of 15500 MTPA and 7800 MTPA, respectively. The company is currently managed by Mr. Ramesh Chander Khandelwal, Mr. Pramod Khandelwal, Mr. Santosh Khandelwal, Mr. Satish Kumar Gupta, Mr. Ram Avtar Sharma, Mr. Kapil Sharma and Ms. Neha Gupta. The company has its manufacturing facility located in New Delhi.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of MCIL while arriving at the rating.

Key Rating Drivers:

Strengths

Established track record of operation and experienced management

The company has a long execution track record of 26 years in the iron and steel industry. The director of the company Mr. Ram Chnder Khandelwal and Mr. Pramod Khandelwal has more than two decades of experience in the iron and steel industry. The other directors Mr. Santosh Khandelwal, Mr. Satish Kumar Gupta, Mr. Ram Avtar Sharm, Mr. Kapil Sharma and Ms. Neha Gupta also have extensive experience in the iron and steel industry. The company has a long presence in this sector and has established a healthy relationship with customers of more than a decade. Acuite believes that the company will continue to benefit from its promoter's extensive industry experience and established relationship with customers over the medium term.

Healthy financial risk profile

The financial risk profile of the company is marked by modest net worth, low gearing and robust debt protection metrics. The net worth of the company stood at Rs.28.99 crore in FY 2020 as compared to Rs 26.70 crore in FY2019. The gearing of the company stood low at 0.13 times as on March 31, 2020 when compared to 0.29 times as on March 31, 2019. The low gearing is mainly due to low reliance on debt by the company. The total debt of Rs.3.88 crore in FY2020 consist only short term debt from the bank. Interest coverage ratio (ICR) stood at 43.59 times in FY2020 as against 10.19 times in FY 2019. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.88 times in FY2020 as compared to 0.48 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain healthy on account steady cash accruals and no major debt-funded capex plan.

Prudent working capital management

The working capital management is marked by moderate gross current asset (GCA) days of 86 days in FY2020 as compared to 82 days in the previous year. The receivable days of the company have marginally increased from 65 days in FY2019 to 74 days in FY2020 on account of the nationwide lockdown at the year end. The inventory days of the company stood comfortable at 10 days in FY2020 as against 15 days in the previous year. Acuite believes that the ability of the company to manage its working capital operations efficiently will

remain a key rating sensitivity.

Weaknesses

Moderate scale of operation

The revenue of the company stood moderate at Rs.120.17 crore in FY2020 as compared to Rs.154.06 crore in the previous year. However, the decline in revenue of the company is on account decrease in trading sales during FY2020 as compared to FY2019. The revenue of the company was also affected due to outbreak of Covid-19 pandemic during March 2020. The company has earned Rs.27.00 crore till 30th September 2020 (Provisional).

Low profitability margin

The operating profitability margin of the company stood low at 3.10 per cent in FY2020 despite improvement from 2.86 per cent in the previous year. However, the operating profitability margin of the company has improved on account of a decrease in the raw material price during the period. The net profitability margin of the company stood moderate at 2.38 per cent in FY2020 as compared to 1.99 per cent in the previous year.

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 ~ 83 per cent of the total revenue. Further, on account of its moderate size and highly fragmented industry, adverse price movements in the steel and metal market can result in severe deterioration in MCIL's profitability margin and debt protection metrics.

Rating Sensitivity

- Scaling up of operations while improving their profitability margin
- Sustenance in capital structure

Material Covenant

None

Liquidity Position: Strong

The company has strong liquidity marked by comfortable net cash accruals of Rs.3.41 crore as against nil long term debt obligations in FY2020. The cash accruals of the company are estimated to remain in the range of around Rs. 2.61 crore to Rs. 4.34 crore during 2021-23 against no expected long term debt obligations. The working capital management of the company is marked by Gross Current Asset (GCA) days of 86 days in FY2020. The bank limit of the company has been ~2 percent utilized during the last six months ended in September 2020. Further, the liquidity of the company is also strengthened by the unencumbered cash of Rs.0.37 crore and free investments of Rs.3.51 crore in FY2020. The current ratio of the company also stood healthy at 3.75 times in FY2020. However, the company has neither availed of loan moratorium for CC nor applied any covid emergency fund. Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of steady cash accruals against nil long debt repayments over the medium term.

Outlook: Stable

Acuite believes that company's business risk profile is expected remain 'Stable' on the back of extensive promoter's experience in the iron and steel industry and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected improvement in accruals while sustaining their liquidity position. Further, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, a decline in profitability margin or substantial elongation in their working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	120.17	154.06
PAT	Rs. Cr.	2.85	3.07
PAT Margin	(%)	2.38	1.99
Total Debt/Tangible Net Worth	Times	0.13	0.29
PBDIT/Interest	Times	43.59	10.19

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-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
21- Aug-2019	Overdraft	Long Term	13.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Proposed Cash Credit	Long Term	8.00	ACUITE BBB/Stable (Reaffirmed)
02-June-2018	Cash Credit	Long Term	13.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Reaffirmed)
	Proposed Cash Credit	Long Term	8.00	ACUITE BBB/Stable (Reaffirmed)
28-Feb-2017	Cash Credit	Long Term	20.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A3+ (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3+ (Reaffirmed)

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About Acuite Ratings & Research:

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