

Press Release

Metal Coatings (India) Limited

January 25, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	13.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	1.50	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 bank facilities of Metal Coatings (India) Limited. The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation reflects moderate financial risk profile, healthy debt protection metrics, strong liquidity position, extensive experience of promoters. Also the rating factors in comfort derived by order book position of Rs. 6.71 Cr. Moreover, the firm has booked revenue of Rs. 58.50 Cr as on September 2021. On the contrary, the firm has modest scale of operations and the margins are exposed to volatility in raw material price.

About the Company

Incorporated in 1994, Delhi based Metal Coatings (India) Limited (MCIL) is a publicly listed 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, Ms. Rupali Aggarwal, Mr. Ram Avtar Sharma and Ms. Ayati 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 Chander Khandelwal and Mr. Pramod Khandelwal have more than two decades of experience in the iron and steel industry. The other directors are Mr. Santosh Khandelwal, Mr. Satish Kumar Gupta and Ms. Rupali Aggarwal who have extensive experience in running businesses. The company has a long presence in this sector

and has established a healthy relationship with customers of more than a decade. Acuité 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 moderate net worth, low gearing and healthy debt protection metrics. The net worth of the company stood moderate at Rs.31.48 crore in FY 2021 as compared to Rs 28.99 crore in FY2020. This improvement in net worth is mainly due to the retention of current year profit. The gearing of the company stood low at 0.30 times as on March 31, 2021. Interest coverage ratio (ICR) is healthy and stood at 71.44 times in FY2021 as against 43.59 times in FY 2020. The debt service coverage ratio (DSCR) stood healthy at 56.00 times in FY2020 as compared to 33.85 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.32 times in FY2021. Going forward, Acuite believes the financial risk profile of the firm will remain healthy on account of steady cash accruals and no major debt funded capex plan.

Weaknesses

Moderate scale of operation with low profitability

The revenue of the company stood modest at Rs.94.12 crore in FY2021 as compared to Rs.120.17 crore in the previous year. During, FY21 and FY20 the revenue has declined due to Covid 19 impact. Moreover, the operation of the company was completely stopped from the end of March till end of May 2020 due to the nation-wide lockdown. During the period of FY21 company focused to cater clients which have better creditworthiness. Despite complete lockdown in April 2020 and partial lockdown subsequently, the company achieved EBITDA margin of 3.38% in FY2021 as against 3.10% in FY2020, this improvement in profitability margin is on account of fall in input prices during the period. Further, Net Profit margin stood improved at 2.72% in FY2021 as against 2.38% in FY2020, the increase in PAT margin is due to low interest and depreciation charges. Further, the company has an order book position of Rs. 6.71 Cr and also, the company has achieved turnover of around Rs. 58.50 Cr as on 30th September 2021.

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 Sensitivities

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

Material covenants

None

Liquidity Position: Strong

The company has strong liquidity marked by strong net cash accruals of Rs.3.08 crore as against nil long term debt obligations in FY2021. The cash accruals of the company are estimated to remain in the range of around Rs. 3.59 crore to Rs. 4.11 crore during 2021-23 against nil long term debt obligation. The working capital management of the company is marked by Gross Current Asset (GCA) days of 129 days in FY2021. The average bank limit utilization of the company has been only ~ 4 percent during the last eight months ended in December 2021. Further, the liquidity of the company is also strengthened by the unencumbered cash of Rs.0.38 crore and Rs. 5.24 Cr in fixed deposits. The current ratio of the company also stood healthy at 2.74 times in FY2021. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against nil long debt repayments over the medium term.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	94.12	120.17
PAT	Rs. Cr.	2.56	2.85
PAT Margin	(%)	2.72	2.38
Total Debt/Tangible Net Worth	Times	0.30	0.13
PBDIT/Interest	Times	71.44	43.59

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Oct 2020	Secured Overdraft	Long Term	13.50	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Reaffirmed)
21 Aug 2019	Proposed Cash Credit	Long Term	8.00	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	13.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50	ACUITE A3+ (Reaffirmed)
02 Jun 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)
17 Nov 2015	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HSBC	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A3+ Reaffirmed
HSBC	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB Stable Reaffirmed

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About Acuité Ratings & Research

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