

Press Release

Eswari Global Metal Industries Private Limited

June 14, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) to the Rs. 50.00 crore bank facilities of ESWARI GLOBAL METAL INDUSTRIES PRIVATE LIMITED (EGPL). The outlook is '**Stable**'.

Incorporated in 1986 as a partnership entity by Mr. Anbalagan and his four brothers, EGPI is engaged in manufacturing of lead and lead based alloys from lead battery scrap. The company has facility located in Mangalore (Karnataka) with installed capacity of 72,000 tons per annum. The day to day operations of the company are managed by Mr. A Sabarinathan and Mr. Nithin.

About the Group

JC Group has its presence in industry since 1980's. The group is engaged in manufacturing of lead alloys, plastics and lead acid batteries and scrap recycling among others.

Analytical Approach

Acuite has considered the consolidated business and financial profiles of Jayachandran Alloys Private Limited (JAPL) and Eswari Global Metal Industries Private Limited (EGPL), together referred to as 'The JC Group'. The consolidation is on account of common management and significant operational linkages. Extent of consolidation: Full

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The promoters of the group started EGPI in 1986 with lead smelting unit in Mangalore (Karnataka) and later in 2006 EGPI added second unit in Mangalore (Karnataka). The founding directors of the JC group namely Mr. P Anbalagan, Mr. P Chandrasekaran, Mr. P Ramalingam and Mr. P Arumugam have around three decades of experience in trading of nonferrous metals, manufacturing of lead alloys and battery manufacturing. The day-to-day operations of the group are also managed by second generation entrepreneurs namely Mr. C Bharani Kumar, Mr. A. Sabarinathan, Mr. C. Pradeep and Mr. C. Prasath having around a decade of experience in metals, plastic and battery industry. The group have installed capacity of 91,200 MTPA. The JC group has shown healthy revenue growth with CAGR of ~24 percent over last three years ended FY2019 Provisional. Further, the group has reported a healthy revenue of Rs.632.00 crore for FY2019 Provisional.

Acuite believes that the JC group benefits from established relationship with domestic and international reputed battery manufacturing clientele. Further, the group also deals with international metal trading customer and suppliers.

• Efficient working capital operations

JC group has maintained comfortable working operations marked by the Gross Current Assets (GCA) of 55 days in FY2018 as against 59 days in FY2017. This is on account of inventory holding of 13 days in FY2018 against 16 days in FY2017. The collection period stood at 19 days in FY2018 against 23 days in FY2017. Acuite believes that the group will continue to effectively manage its working capital cycle in order to maintain a stable credit profile.

• Moderate financial risk profile

JC Group has moderate financial risk profile marked by moderate net worth, gearing and debt protection measures. The tangible net worth of the group stood moderate at Rs.35.30 crore as on March 31, 2018 against Rs.26.22 crore as on March 31, 2017. The improvement in networth is on account of accretion in reserves. The gearing (debt-equity) remained moderate at 1.30 times as on March 31, 2018 against 1.86 times as on March 31, 2017. The total debt outstanding of Rs.45.72 crore as on 31 March 2018 consist of term loan of Rs.5.80 crore, unsecured loans of Rs.10.44 crore and working capital borrowing of Rs.29.48 crore. The coverage indicator of the group stood moderate levels. ICR stood at 2.87 times and DSCR stood at 2.07 times in FY2018. Total outside liabilities to tangible net worth has remained at 2.46 times as on 31 March, 2018. The Net cash accruals to Total debt (NCA/TD) stood at 0.28 times for FY2018. The Return on Capital Employed (RoCE) stood at 29.34 per cent in FY2018.

Acuité believes that the growth in revenue, sustenance of its profitability margins and absence of any further significant capex plans are expected to support the financial risk profile in near to medium term.

Weaknesses

• Volatile margins and competition in the industry

The major raw material of the group is battery scrap. The prices of the same are fluctuating in nature, therefore the operating profit margins of the group is susceptible to raw material price fluctuation. Further, JC Group imports 90 percent of its raw material from Middle East and Asian countries. Currently, battery storage (raw material lead) is being replaced by lithium-ion batteries for electric vehicles. There is expected pressure on demand due to moderation in off take by auto sector. Acuité believes that established relations with suppliers will be crucial for the group for procuring its raw material.

• Customer concentration risk

The JC Group faces high customer concentration risk. JAPL's top two customer accounts for ~52 per cent of its sales in FY 2019 Provisional. The high customer concentration renders the group's revenue growth and profitability susceptible to the growth plans of its key customer.

Liquidity position:

The group has adequate liquidity marked by moderate net cash accruals as compared to its maturing debt obligations. JC Group generated cash accruals of Rs.6.10-12.71 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.1.50 crore over the same period. The cash accruals are estimated to improve to Rs.13.00-15.00 crore during 2019- 21, while its repayment obligations are expected to be at Rs.1.6 crore over the period. This is on account of significant improvement in revenue leading to high profitability. JC Group maintains cash and bank balances of Rs.1.91 crore as on March 31, 2018. The current ratio stood moderate at 1.16 times as on March 31, 2018. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of expected healthy cash accruals over the medium term.

Outlook: Stable

Acuité believes that JC Group's outlook will remain 'Stable' over the medium term from its experienced management along with efficient working capital operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	565.73	380.76	328.81
EBITDA	Rs. Cr.	25.91	20.93	14.29
PAT	Rs. Cr.	9.19	6.37	3.85
EBITDA Margin	(%)	4.58	5.50	4.35
PAT Margin	(%)	1.62	1.67	1.17
ROCE	(%)	29.34	25.48	26.98
Total Debt/Tangible Net Worth	Times	1.30	1.86	1.91

PBDIT/Interest	Times	2.87	2.48	2.02
Total Debt/PBDIT	Times	1.75	2.36	2.85
Gross Current Assets (Days)	Days	55	59	61

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

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
20-Mar-2018	Cash Credit	Long Term	20.00	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB / Stable (Assigned)
	Post Shipment Credit	Short Term	20.00	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB / Stable (Reaffirmed)
Bill Purchase	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2 (Reaffirmed)

Bill Purchase of Rs.28.00 crore includes sublimit of FBP/FBD to the extent of Rs.8.00 crore and Clean Bill Discount of Rs.4.00 crore

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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