

Press Release

Petropol India Limited

June 14, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 14.00 crore
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed a long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 14.00 crore bank facilities of Petropol India Limited (PIL). The outlook is '**Stable**'.

Rajasthan-based, Petropol India Limited was incorporated in 1995 by Mr. Vijay Garg, Mr. Kamal Bansal and Mr. Ashok Kumar Garg. The company is engaged in the manufacturing of TMT Mild Steel bars with its manufacturing facility located in Bhiwadi (Rajasthan) and has an installed capacity of 80000 metric tons per annum. The products are sold under the 'Metro' brand name. PIL is an ISO certified company (ISO 9001-2008) and is also approved by DGS&D (Director General of supplies and disposal).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PIL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced track record of operations and experienced management

PIL was established in 1995 by Mr. Vijay Garg, Mr. Kamal Bansal and Mr. Ashok Kumar. The operations are led by Mr. Ashok Garg who has an extensive experience in the steel industry. The senior management is supported by an able second line of management. Backed by their experience they have been able to maintain long term relations with their customers. Acuite believes, going ahead the company will benefit from its experienced management which helps the company maintain long standing relations with reputed customers and suppliers.

• Working Capital Management

PIL has comfortable working capital operations marked by Gross Current Asset (GCA) of 89 days in FY2019 (Provisional) as compared to 94 days in FY2018. This is on account of debtors' collection period of 72 days in FY2019 (Provisional) as against 67 days in FY2018 and inventory holding period of 15 days in FY2019 (Provisional) as against 23 days in FY2018. Further, the average cash credit utilization stood around ~90 percent for the last six months. Acuite believes that the working capital operations of PIL will continue to remain comfortable on account of level of inventory to be maintained and the credit given to its customers.

Weaknesses

• Moderate Financial Risk Profile

PIL has moderate financial risk profile marked by moderate net worth, and moderate debt protection metrics. The company's net worth stood at Rs. 27.33 crore as on 31 March, 2019 (Provisional) as against Rs. 23.61 crore as on 31 March, 2018, owing to comfortable accretion to reserves due to moderate profitability. The gearing levels (debt-to-equity) stood at 1.07 times as on 31 March, 2019 (Provisional) from 0.94 times as on 31 March, 2018. Further, the interest coverage

ratio stood at 2.42 times for FY2019 (Provisional) as compared to 2.27 times for FY2018. DSCR stood at 1.94 times for FY2019 (Provisional) and 1.81 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 2.46 times as on 31 March, 2019 (Provisional) vis-à-vis 1.81 times as on 31 March, 2018. NCA/TD stood at 0.08 times in FY2019 (Provisional). Acuite believes that financial risk profile of the company is likely to remain moderate over the medium term on account of moderate net worth and moderate debt protection metrics.

• Intense competition and inherent cyclicality in the steel industry

PIL's margins are susceptible to volatility in commodity prices. Any significant change in commodity prices over supply would have an impact on the margins. Further, company operates in a highly fragmented and competitive industry along with its exposure to inherent cyclical nature of the steel industry, thus limiting its bargaining power. However, the risk is mitigated to an extent on account of established track record of operations and promoter's experience.

Liquidity position

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 2.47 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 0.28 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 3.30 crore to Rs. 4.70 crore during 2020-22 against repayment obligations in the range of around Rs. 0.14 crore to Rs. 0.28 crore. The company's working capital operations are comfortable marked by gross current asset (GCA) days of 89 days for FY2019 (Provisional) as against 94 days in FY2018. The company maintains unencumbered cash and bank balances of Rs. 0.56 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.63 times as on 31 March 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that PIL will maintain a 'Stable' outlook over the medium term on the back of its experienced management and efficient working capital management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	319.69	198.25	180.20
EBITDA	Rs. Cr.	4.90	3.64	3.90
PAT	Rs. Cr.	1.01	0.34	0.35
EBITDA Margin	(%)	1.53	1.84	2.16
PAT Margin	(%)	0.32	0.17	0.19
ROCE	(%)	6.73	5.45	7.00
Total Debt/Tangible Net Worth	Times	1.07	0.94	0.63
PBDIT/Interest	Times	2.42	2.27	2.21
Total Debt/PBDIT	Times	5.89	6.04	3.28
Gross Current Assets (Days)	Days	89	94	117

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

Not Applicable

Any other information

Not Applicable

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>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
March 29, 2018	Cash Credit	Long Term	12.00	ACUITE BB+/ Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BB+/ Stable (Assigned)
May 27, 2016	Cash Credit	Long Term	10.00	ACUITE BB/ Stable (Suspended)
March 18, 2015	Cash Credit	Long Term	10.00	ACUITE BB/ Stable (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	12.00	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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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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