

Press Release

Palco Recycle Industries Limited

June 27, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 19.03 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 19.03 crore bank facilities of Palco Recycle Industries Limited. The outlook is '**Stable**'.

Gujarat based Palco Recycle Industries Limited, incorporated in 2007 is a flagship company of PALCO group. As a part of the group restructuring, the company took over the business of Palco Metals Limited and Palco Recycle Exchange Limited. The company is engaged in the manufacturing of aluminium deoxidant (ingots, notch bar, cubes and shots) and aluminium wire rod. The company has an installed capacity of 17700 MT which is ~ 38 per cent utilised.

Key Rating Drivers

Strengths

• Experienced Management

Incorporated in 2007 the company is promoted by Mr. Kiran kumar Agarwal Chartered Accountant by profession served as a director with Krishna Capital and Securities Limited and Mr. Kanaiyalal Agarwal also a Chartered Accountant among other directors. The extensive experience of the management has helped the company maintain healthy relations with its customers and suppliers which in turn helps in securing repeat orders. PRIL derives more than 70 per cent of its revenue from TATA Steels Limited and JSW Steel Limited among other customers.

• Moderate financial risk profile

The company has moderate financial risk profile marked by comfortable net worth of Rs. 23.50 crore as on 31 March 2017 as against Rs.24.04 crore as on 31 March 2016. The gearing improved to 0.57 times as on 31 March 2017 as against 1.06 times as on 31 March 2016. The total debt of Rs.13.46 crore outstanding as on 31 March 2017 comprises Rs.5.60 crore as long term debt unsecured loans from directors/ promoters have been reduced to Rs. 0.37 crore (against Rs. 6.57 crore in FY2016) and Rs.7.49 crore as short term borrowings from the bank. The Interest Coverage Ratio stood at 1.45 times in FY2017 as against 1.30 times in FY2016. The net cash accruals stood at 1.09 crore in FY2017 and NCA/TD at 0.08 times in FY2017. DSCR stood at 0.87 times in FY 2017.

Acuité believes the financial risk profile will remain moderate in absence of any major debt funded capex and moderate net cash accruals.

Weaknesses

• Moderate working capital intensive operations

PRIL operates in a moderate working capital intensive reflected in the Gross current assets of around 160 days as on 31 March 2017 as against 206 days on 31 March 2016. GCA days are mainly dominated by high receivables of 62 days and loans and advances to related entities of Rs. 7.40 crore included under other current assets in FY2017 which have been realised during FY2018.

• Uneven margins

The profitability margins were inconsistent from FY2015 to FY2017. The EBITDA margin stood at 3.70 percent in FY2017 as against 2.24 percent in FY2016 and 3.93 percent in FY2015 mainly on account of increase in raw material prices.

• Competitive nature of the industry

PRIL operates in a highly competitive and fragmented industry characterised by a large number of organised and unorganised players affecting margins and the bargaining power with customers.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of PRIL to arrive at the rating

Outlook: Stable

Acuite believes that PRIL will maintain a 'Stable' risk profile over the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of sustained and significant growth in operating income while improving its profitability margins. The outlook may be revised to 'Negative' in case of sustained decline in profitability metrics and further deterioration in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	69.19	64.35	71.02
EBITDA	Rs. Cr.	2.56	1.44	2.79
PAT	Rs. Cr.	0.46	0.13	0.12
EBITDA Margin	(%)	3.70	2.24	3.93
PAT Margin	(%)	0.67	0.21	0.16
ROCE	(%)	8.41	6.94	16.00
Total Debt/Tangible Net Worth	Times	0.57	1.06	1.02
PBDIT/Interest	Times	1.45	1.30	1.30
Total Debt/PBDIT	Times	3.21	6.14	5.27
Gross Current Assets (Days)	Days	160	206	203

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

CRISIL has suspended the rating of Palco Recycle Industries Limited. The suspension of ratings is on account of non-cooperation by the company.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

*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	15.00	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.94	ACUITE B+ / Stable

Overdraft	Not Applicable	Not Applicable	Not Applicable	2.47	ACUITE B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4

One way interchange-ability between of Rs. 4 crore from fund based to non-fund based

Contacts

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About Acuité Ratings & Research:

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