

Press Release

V K Metcast Private Limited

July 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.9.50 crore bank facilities of V K Metcast Private Limited (VKMPL). The outlook is '**Stable**'.

V K Metcast Private Limited was incorporated in 2003. It is a closely-held private limited company promoted by Mr. Veena Chadha, Mr. Kuldeep Chadha, and Mr. Navneet Chadha (Managing Director). The company manufactures non-ferrous metals of zinc alloys, zinc ingots and lead ingots from recycling and smelting of zinc and lead scrap generated by smelters. The company currently has a manufacturing capacity of around 3,000 metric tonnes per annum (TPA). VKMPL's registered office is in Delhi and its manufacturing unit is at Alwar (Rajasthan). VKMPL sells under the brand names of 'K. C' and 'VMS Z3' and 'VMS Z5'.

Key Rating Drivers

Strengths:

- Experienced Promoters and Promoter's funding support:**

VKMPL is promoted by Mr. Navneet Chadha with over three decades of experience in the non-ferrous metals industry. His longstanding presence helped the company in strengthening the relations with both customers and suppliers, thus resulted in improvement in revenues; at a compound annual growth rate (CAGR) of about 17 percent over four years through FY2018. Also to cope up with the increasing demand for product and high utilisation of current capacities, management has been de-bottlenecking its current facility with minor additions over the past three years leading to expected increase in capacity to 9000 TPA from 3000 TPA. The full-fledged capacity is expected to be operational by around July 2018 and the same is funded out of unsecured loans only. This reflects the financial flexibility the company enjoying from the promoters. Unsecured loans have increased from Rs.6.90 crore as on March 31, 2016 to Rs.8.50 crore as on March 31, 2018 (Provisional). Acuite believes that VKMPL's business risk profile is expected to improve further supported by the expanding capacity, vantage of the promoter and the financial flexibility the company enjoys.

- Comfortable financial profile:**

VKMPL's financial risk profile is marked by healthy gearing (debt-to-equity), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing is strong at 0.09 times as on March 31, 2018 (Provisional). TOL/TNW is healthy at around 0.62 times (Provisional) owing to less reliance on external debt and moderate net worth of Rs.10.50 crore (Provisional) as on March 31, 2018. It has no significant long-term obligations to service which results in healthy bank limit utilisation at about 36 percent over six months through March 31, 2018. The debt protection metrics of Interest service coverage stood comfortable at 2.30 times, and net cash accruals to total debt (NCA/TD) stood at 1.12 times March 31, 2018 (Provisional). Acuite believes that the financial risk profile is expected to be at similar levels supported by moderate cash accruals, no long term debt to service, and absence of capex plans over the medium term.

Weaknesses:

- Working capital intensive operations**

VKMPL's operations are moderately working capital intensive as reflected in its Gross Current Assets (GCA) of about 111 days in FY2018 (Provisional); however, this is an improvement from 212 days in FY2017 and 156 days in FY2016. The company maintains an inventory of about two months, and offers credit of about 50-60 days to its clientele. This results in moderate working capital intensive operations.

- Modest scale of operations**

The company is into non-ferrous metal industry with revenues of Rs.44.62 crore in FY2018 (Provisional) as against Rs.40.95 crore in FY2017. Though the revenues have improved at a compound annual growth rate (CAGR) of about 17.42 percent over the past four years through FY2018, however they are at a modest level within the industry. Further, domestic non-ferrous metal industry remains highly competitive. Since the metal industry is a price sensitive industry, stocking up of inventory beyond certain extent may cause erosion in the profitability margins.

Analytical Approach

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

Outlook: Stable

Acuite believes that VKMPL will maintain a 'Stable' outlook in the medium term on account of the experienced promoter and the financial flexibility it enjoys. The outlook may be revised to 'Positive' in case of higher-than-expected revenues while sustaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle on account of planned geographical diversification, thus exerting pressure on the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	44.62	40.95	29.15
EBITDA	Rs. Cr.	1.82	0.97	0.52
PAT	Rs. Cr.	0.77	0.48	0.13
EBITDA Margin	(%)	4.09	2.36	1.78
PAT Margin	(%)	1.72	1.17	0.43
ROCE	(%)	13.44	10.05	3.54
TOL/Tangible Net Worth	Times	0.62	2.21	0.78
PBDIT/Interest	Times	2.30	2.19	8.82
Gross Current Assets (Days)	Days	111	212	156

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-17.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 (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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB / Stable (Assigned)
LC/LoC/Buyers' Credit (on DP/DA usance 180 days)*	Not Applicable	Not Applicable	Not Applicable	8.00*	ACUITE A4+ (Assigned)

*With one way full convertibility from LC/LoC/Buyers' Credit to Cash Credit and not-vice versa

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About Acuité Ratings & Research:

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