

Press Release

METALLURGY COLLABORATION

August 31, 2018

Rating Assigned



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 8.70 Cr. |
| Long Term Rating | ACUITE B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs. 8.70 crore bank facilities of Metallurgy Collaboration (MC). The outlook is '**Stable**'.

The Kolhapur based, Metallurgy Collaboration is a partnership firm established in 1978. The firm is engaged in manufacturing of shell mould castings such as Grey Cast Iron, Ductile Iron and SG Iron Casting & Machining. The manufacturing facility is located in MIDC Kolhapur having an installed capacity of 6000 metric tons per annum (MTPA) which will be increased to 30000 MTPA in FY2019.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The firm was established in 1978, thus, having an operational track record of over four decades in the engineering industry. This has helped to maintain long standing relations with customers and suppliers. The firm also benefits from its experienced promoter, Mr. Ashok Ramchandra Khot (Partner), who possesses over four decades of experience in the aforementioned industry. Further, Mr. Sandesh Ashok Khot (Partner) has an experience of over a decade in the same industry. The group caters to reputed clients including Bajaj, Hero Honda and Knorr-Bremes among others. Acuite believes that MC will sustain its existing business profile on the back of established track record of operations and experienced management.

• Efficient working capital management

MC has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 64 days in FY2018 (Provisional) as against 61 days in FY2017 and 54 days in FY2016. This firm maintains inventory of 4 days from past three years. Debtors stood at 42 days in FY2018 (Provisional) as against 41 days in FY2017. Further, the firm has net cash accruals of Rs.1.41 crore in FY2018 (Provisional) as against Rs.1.46 crore in FY2017. Acuite believes that the firm's ability to maintain its working capital efficiently will remain a key to maintain a stable credit profile.

Weaknesses

• Average financial risk profile

The financial risk profile of MC remained average marked by net worth of Rs.7.20 crore as on 31 March, 2018 (Provisional) as against Rs.7.75 crore as on 31 March, 2017. The gearing stood at 0.14 times as on 31 March, 2018 (Provisional) as against 0.08 times as on 31 March, 2017. The total debt of Rs.1.01 crore as on 31 March, 2018 (Provisional) mainly comprises of Rs.0.62 crore of unsecured loan from oil seed society and Rs.0.39 crore of long term debt. Interest Coverage Ratio (ICR) stood at 58.78 times for FY2018 (Provisional) as against 31.28 times for FY2017. NCA/TD (Net cash accruals to total debt) ratio remained at 1.40 times in FY2018 (Provisional) and 2.36 times in FY2017. Further, Debt to EBITDA stood at 0.70 times in FY2018 (Provisional) as against 0.41 times in FY2017.

• Uneven revenue and profitability trend

The revenue trend of MC is uneven during the period FY2015 to FY2018 under the study. This is majorly on account of fluctuation in the steel prices which has impacted the scale of operations of the firm. The operating income stood at Rs.25.24 crore in FY2018 (Provisional) as against Rs.24.35 crore in FY2017 and Rs.23.61 crore in FY2016. The EBITDA margins declined to 3.91 percent in FY2018 (Provisional) as against 4.23 percent in FY2017. PAT margins stood at 3.97 percent in FY2018 (Provisional) as against 4.49 percent in FY2017. Acuite believes that the ability of the firm to maintain its revenue stream in such a highly competitive market and volatile steel prices will be key rating sensitivity.

• Profitability is vulnerable to volatility in raw material prices

The firm is engaged in manufacturing of iron castings. The major raw material used is pig iron and iron scraps, the prices of these metals are volatile in nature and therefore impact the sales and profitability of the firm.

Outlook: Stable

Acuite believes that MC will maintain 'Stable' outlook over the medium term on the back of efficient working capital management and its business risk profile. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while improving profitability along with improved financial risk profile. Conversely the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 25.24 | 24.35 | 23.61 |
| EBITDA | Rs. Cr. | 0.99 | 1.03 | 1.10 |
| PAT | Rs. Cr. | 1.00 | 1.09 | 0.96 |
| EBITDA Margin | (%) | 3.91 | 4.23 | 4.65 |
| PAT Margin | (%) | 3.97 | 4.49 | 4.07 |
| ROCE | (%) | 12.38 | 15.09 | 18.03 |
| Total Debt/Tangible Net Worth | Times | 0.14 | 0.08 | 0.07 |
| PBDIT/Interest | Times | 58.78 | 31.28 | 12.18 |
| Total Debt/PBDIT | Times | 0.70 | 0.41 | 0.29 |
| Gross Current Assets (Days) | Days | 64 | 61 | 54 |

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

None

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 |
|-------------------------|------------------|----------------|----------------|-----------------------------|--------------------|
| Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | 8.70 | ACUITE B+ / Stable |

Contacts

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About Acuité Ratings & Research:

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