Press Release

Manaksia Coated Metals And Industries Limited

D-U-N-S® Number: 86-024-2255

January 29, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** and its short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** to the Rs. 250.00 crore bank facilities of Manaksia Coated Metals And Industries Limited (MCMIL). The outlook is **'Stable'**.

MCMIL is a Kolkata-based company managed by Mr. Sushil Agrawal and Mr.Ajay Chakraborty. It was incorporated in 2010 and was a dormant company till 2013 subsequently the coated metal division and mosquito coil division of Manaksia Ltd (ML) was transferred under the scheme of demerger. Manaksia Ltd is a multi-division conglomerate with 17 manufacturing plants in India and 3 abroad; two in Nigeria, one in Ghana. Prior to the demerger Manaksia Ltd. had four divisions viz. steel division, packaging division, coated metal & mosquito coil division and aluminum division. MCMIL is primarily engaged in the manufacturing of value added steel flat producers like galvanized steel sheets & coils and pre painted steel sheets & coils. The company is also engaged in the home insecticide market with 3 production units of mosquito repellent coils. The coated steel division of the company has an operational capacity to produce 1,08,000 MT per annum of galvanized steel coils, an operational capacity of 39,000 MT per annum of pre painted steel coils and the home insecticide division of the company has can produce 432 million mosquito coils per annum. The company's manufacturing facilities are located in Gujarat, Madhya Pradesh, Telangana and Assam.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of MCMIL, Manaksia International FZE (MIF) and JPA Snacks Private Limited (JPASPL) together referred to as the 'Manaksia Group' (MG) to arrive at the rating. The consolidation is in view of the similarities in the lines of business, operational and financial synergies and common management. Further, MIF and JPASPL are wholly owned subsidiary of MCMIL. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established market position in Pre painted galvanized iron (PPGI) and healthy relationship with large players in steel coating industry

MCMIL has been engaged into manufacturing of coated metal & mosquito coil since 2013, prior to 2013 the operations were under Manaksia Ltd. ML is the flagship company of the group. ML has been engaged in this industry for more than 40 years and is promoted by Mr. Sushil Kumar Agrawal, Mr. Ajay Kumar Chakraborty and Mr. Karan Agrawal. The present Chairman of the company is Mr. Ajay Kumar Chakraborty who possess extensive industry experience of more than two decades in the said industries. Mr. Sushil Kumar Agrawal a commerce graduate from Calcutta University is the Managing Director of MCMIL has an experience of about three decades in steel industry / packaging industry. The extensive experience of the promoters in the industry has helped the company build strong market presence. MCMIL concluded setting up of 108,000 MTPA continuous galvanizing line for manufacturing of galvanized steel coils/sheets in the last quarter of 2018, thereby providing a strong revenue visibility over medium term. Acuité believes that MCMIL will continue to benefit from its experience in the said industry and its relation with large players in the steel industry over near to medium term. On account of its established presence in the industry, MCMIL has been able to build esteemed client profile. Some of the key customers are Reckitt Benckiser (I) Pvt. Ltd. (RBIPL), Jai Hind Steel Corporation (JHSC), Jindal Mectec I Pvt. Ltd. (JMIPL), ZEP Infra Tech Ltd. (ZEPITL) among others.

- **Expected Improvement in financial risk profile**

MG's financial risk profile is marked by healthy net worth, low gearing and moderate debt protection measures. The net worth of the company increased to Rs.88.93 crore as on 31st March 2018 as against Rs.86.92 crore in the previous year on account of increasing profitability, leading to higher accretion to reserves. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 1.39 times as on March 31, 2018. The total debt of Rs. 123.47 crore consists of long term debt of Rs.42.05 crore, Rs.55.17 crore of short term de bt obligations and Rs. 26.25 crore of unsecured loans from promoters. The company's gearing is estimated to be low at 1.39 times as on 31st March 2018 as against 0.67 times in the previous year. The moderate improvement in profitability levels has resulted in healthy net cash accruals of Rs.10.05 crore during 2016-18, leading to moderate debt protection measures. The interest coverage ratio stood at 3.14 times in FY18 as against 3.74 times in the previous year. Marginal decline in turnover during FY18 vis-à-vis FY17 partially offset by slight improvement in operating margin from 5.24 to 6.60 has resulted in the cash accruals increasing from 8.82 in FY17 to 10.05 in FY18. The company has Rs. 7.60 crore of annual debt obligation for FY20 against which the accruals in the first half of FY19 is only around ~Rs. 2.00 crore which is mainly attributed to initial challenges in scaling up the operations of the galvanized steel plant. The company is also in the process of discussions with its bankers for securing a release of the entire fund based working capital facilities, once the company's ability to scale up its operation in the galvanization unit will also depend on its ability to ensure adequate working capital lines from its bankers/external funding sources. Debt/EBITDA is slightly higher as on March 31, 2018 at 6.96 due to the recent debt funded capex program. Acuité believes the debt protection indicators are expected to improve on the back of optimal utilization of the recently started galvanization unit. Th e improvement in scale of operations, expected expansion in operating profitability margins coupled with the gradual repayment of the term debt obligation is likely to result in moderation of the Debt/Ebitda metrics. Acuité expects the Debt to EBITDA (annualized) of around 4.5x by September, 2019. Any significant challenges in attaining the expected levels by September 2019 is likely to impart a negative bias to the rating.

Acuité believes that MG'S financial risk profile is expected to improve on the back of steady improvement in scale of operations, higher operating profitability mainly from the galvanized unit and gradual reduction in term debt levels, over the near to medium term.

- **Moderate working capital nature of operation**

The working capital management is marked by Gross Current Assets (GCA) of 206 days in FY2018 as against 132 days in FY2017. The company maintains inventory of around 60 days on an average and extends clean credit of around 60 days to its customers, resulti ng in high GCA days. The inventory and debtor levels stood at 77 days and 46 days in FY2018 as against 42 days and 52 days in FY2017, respectively.
Acuité believes that the working capital requirement will continue to remain moderate over the medium term on account of its high inventory requirements.

Weaknesses

- **Exposure to cyclicality in end-user industry**

The coil coatings industry is inherently cyclical on account of its high dependence on the construction and appliance industries. The demand for coil coatings, and hence, the player revenue and profitability are directly related to the growth of the coated steel sector, which is cyclical. Any slowdown in economic activity or lower investments in infrastructure and housing can have a negative impact on operations; though it is likely to witness large demand over the medium term due to industrial growth and development of new residential and commercial regions. However, MCMIL will remain susceptible to cyclicality in the end-user segment. Acuité believes that the capacity utilization levels for the galvanization unit and incremental cash accruals from the new capacity will be a key rating sensitivity factor.

- **Exposure to foreign exchange fluctuation risk**

MCMIL imports roughly around 14% of total raw materials and exports 10% of its total sales. Overall, the company was a net exporter of Rs.0.39 crore in FY18. As the company has a practice of partial hedging of forex exposure through forward cover, its profitability is susceptible to volatility in foreign exchange fluctuations. The company reported forex loss of Rs.0.25 crore in FY18 as against gain of Rs.0.22 crore in FY17.

Outlook: Stable

Acuité believes that the outlook on MCMIL's facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience and improving financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability largely facilitated through improvement in capacity utilization. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital requirements or higher than anticipated capex.

About the Group

MG includes three companies i.e. MCMIL, MIF and JPASPL. MCMIL is engaged in manufacturing of value added steel flat producers like galvanized steel sheets & coils and pre painted steel sheets & coils. MIF is engaged in trading of metal and metal products. JPASPL is engaged in manufacturing of packaged food products in north east states. It is a Kolkata based group promoted by Mr. Sushil Agrawal and Mr.Ajay Chakraborty.

Liquidity position

MCMIL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.10.00 to Rs. 12.00 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.6.00 to Rs. 11.00 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 10.00 - Rs.19.00 crore during 2019-21. The company's operations are moderately working capital intensive as marked by Gross Current Asset (GCA) days of 206 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.6.05 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.24 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual while its maturing debt obligations are estimated to be in the range of Rs. 6.00 to Rs. 7.50 crore

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	255.02	269.67	226.50
EBITDA	Rs. Cr.	16.84	14.13	16.12
PAT	Rs. Cr.	1.98	0.65	2.88
EBITDA Margin	(%)	6.60	5.24	7.12
PAT Margin	(%)	0.78	0.24	1.27
ROCE	(%)	5.06	4.61	9.06
Total Debt/Tangible Net Worth	Times	1.39	0.67	0.59
PBDIT/Interest	Times	3.14	3.74	3.96
Total Debt/PBDIT	Times	6.96	3.81	3.08
Gross Current Assets (Days)	Days	206	132	146

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

Not applicable

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
- 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 (Up to 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	23.00*	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00^	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00@	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A- / Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A- / Stable (Assigned)
Working Capital Demand Loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- / Stable (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	19.50**	ACUITE A2+ (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A2+ (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2+ (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00@@	ACUITE A2+ (Assigned)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2+ (Assigned)

Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00>	ACUITE A2+ (Assigned)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A- / Stable (Assigned)

*EPC/FBD/PCFC limit of Rs.20.00 crore sublimit of CC

**BG limit of Rs.1.50 crore sublimit of LC

**One way interchangeability from LC to FBWC upto 50% of the LC limit (Rs.9.75 crore)

^ WCDL limit of Rs.10.00 crore sublimit of CC

^EPC/FBD/PCFC limit of Rs.13.00 crore sublimit of CC

@ PC/FBD/PCFC limit of Rs.5.50 crore sublimit of CC

@ WCDL limit of Rs.6.00 crore sublimit of CC

@@BG limit of Rs.1.50 crore sublimit of LC

>BG limit of Rs.1.00 crore sublimit of LC

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About Acuité Ratings & Research:
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