Press Release

Manaksia Coated Metals and Industries Limited

27 February 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	ACUITE A-/Negative (Reaffirmed and Outlook revised)
Short Term Rating	ACUITE A2+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

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

The revision in outlook is because of deterioration in MCMIL's liquidity profile along with decline in the revenue during 9MFY20. The company has high financial obligation of Rs 38.75 crores, which includes current maturity of Rs 9.16 crores and creditor for capital good of Rs 29.59crores.In addition, company's net cash accrual has been also low at Rs 9.74 crores in FY19 as against its current maturity of Rs.9.16 crores. Company has posted a dip in the scale of operation as revenue stood at Rs 180.21crores during 9MFY20 as compared to Rs.206.61 crores during 9MFY19 due to fall in average realization of metal products and low capacity utilization in the galvanized unit.

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 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. Recently company has commenced contract manufacturing of Robin Blue for Reckitt Benckiser India Pvt Ltd since FY20.

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

Experience Management and part of renowned group

MCMIL has been engaged into manufacturing of coated metal & mosquito coil since 2013, prior to 2013 the operations were under Manaksia Ltd(ML). 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 possesses 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 has started the operation of 108,000 MTPA galvanizing line for manufacturing of galvanized steel coils/sheets which has become operational since Q3FY19,

Comfortable financial risk profile
The financial risk profile of the MCMIL is marked by healthy net worth, modest gearing and modest debt protection metrics. The net worth of the company stands at Rs.89.23 crore in FY2019 as compared to Rs.88.93 crore in FY2018. This improvement in Networth is mainly due to retention of current year profit. The gearing of the company stands at 1.43 times as on March 31, 2019 when compared to 1.39 times as on March 31, 2018. The total debt of Rs.127.65 crore in FY2019 consists of short-term loan of Rs.56.56 crore, unsecured loan from promoters of Rs.34.95 crore and long-term debt of Rs.26.98 crore. Interest coverage ratio (ICR) had deteriorated to 1.86 times during FY2019 as against 3.14 times in FY 2018 due to increase in financial cost. The reason for increase in financial cost was due to enhancement of working capital limits and Rs 4.36 crores of additional interest, which was capitalized in FY18 and subsequently charged in FY19. The debt service coverage ratio stood at 1.15 times in FY2019 as against of 1.17 times in FY2018. The net cash accruals against total debt (NCA/TD) stand at 0.08 times in both FY19 and FY18. Acuité observes that there has been moderation in their Debt to EBITDA levels in the current fiscal and is at around 4.15 times (annualized) till September 2019. Acuité believes the financial risk profile of the group will remain comfortable because of no major debt funded capex over the medium term and enhanced accruals post stabilization of the galvanization unit.

Improvement in Profitability and Scale of operation
The company had witnessed improvement in scale of operation and profitability margin during FY19 driven by rise in average realization and sale volume of metal products. EBITDA margin had improved to 9.39 percent during FY19 as against 6.60 percent in FY18 as profitability of metal product segment had increased which contributes to 90 percent of total revenue. Acuité believes similar trend will continue in FY20 based on 9MFY20's performance, which reflects company had already posted an EBITDA of Rs 21.04 crores as against Rs 14.41 crores in 9MFY19. Moreover, the capacity utilization of galvanizing unit has improved from January 20, which will help to maintain the revenue growth in medium term. Acuité believes that the scale of operations and profitability metrics of MCMIL would improve over the medium term driven by the performance of the galvanization unit.

Weaknesses

Exposure to cyclicality in end-user industry
The coil coatings industry is inherently cyclical because 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.

Rating Sensitivity
- Sustenance of revenue growth while maintaining profitability
- Improvement in liquidity profile

Material Covenant
None

Liquidity Position: Adequate
The company has adequate liquidity though there has been deterioration from previous levels. The working capital utilization during 12 month ended December 2019, which stood at around 88 percent. However, company's net cash accrual stood at Rs 9.74 crores in FY19 as against current maturity of Rs. 9.16crores.

Besides, the company has obligations of around Rs. 29 crores towards repayment for creditors for capital goods which is expected to put pressure on the liquidity position of the company over the medium term. Current ratio stood at 1.34 times in FY19 as against 1.58 times in FY18. Acuité expects the liquidity profile of the company to be under pressure for the high external commitments though the enhancement in working capital limits in December 2019 provides partial relief.

Outlook: Negative

Acuité has revised the outlook of MCMIL to 'Negative' due to deterioration in liquidity and turnover decline in the current financial year. The revision in outlook also reflects Acuite's expectation that the liquidity position would remain under pressure over the medium term. The rating may be downgraded in case any further deterioration in liquidity or any further decline in the topline levels. Conversely, the outlook may be revised to 'Stable' in case of improvement in liquidity profile and upward movement in the turnover levels coupled with sustenance in the profitability margins.

About the Rated Entity - Consolidated

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	266.08	255.02
PAT	Rs. Cr.	-0.41	1.98
PAT Margin	(%)	-0.16	0.78
Total Debt/Tangible Net Worth	Times	1.43	1.39
PBDIT/Interest	Times	1.86	3.14

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
- 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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
29- January-2019	Cash Credit	Long Term	23.00*	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	13.00^	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	6.00@	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	38.00	ACUITE A-/Stable (Assigned)

	Working Capital Demand Loan (WCDL)	Long Term	10.00	ACUITE A-/Stable (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	19.50**	ACUITE A-/Stable (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	22.50	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	8.00	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	25.00@@	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	12.00	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	30.00>	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	12.00	ACUITE A2+ (Assigned)
	Proposed fund based limit	Long Term	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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00*	ACUITE A-/Negative (Reaffirmed, Outlook Revised)
Cash Credit	March 2017	Not Applicable	June 2023	5.00@	ACUITE A-/Negative (Reaffirmed, Outlook Revised
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00>	ACUITE A-/Negative (Reaffirmed, Outlook Revised
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.0	ACUITE A-/Negative (Reaffirmed, Outlook Revised)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A-/Negative (Reaffirmed, Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00@@	ACUITE A-/Negative (Reaffirmed, Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/Negative (Reaffirmed, Outlook Revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A-/Negative (Reaffirmed, Outlook Revised)
Term Loan	April 2017	Not Applicable	June 2023	26.59	ACUITE A-/Negative (Reaffirmed, Outlook Revised)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.32	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00**	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00@^	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2+ (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	34.59	ACUITE A-/Negative (Reaffirmed, Outlook Revised)

@ EPC/FBD/PCFC limit of Rs.5.00 crore sublimit of CC.

@@WCDL of Rs.2.00 crore sublimit of CC.

> WCDL limit of Rs.6.00 crore sublimit of CC

*EPC/FBD/PCFC limit of Rs.20.00 crore sublimit of CC
** LER of 1.25crores sublimit of Letter of Credit

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt 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.