

Press Release

APL Metals Limited

October 18, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.87.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs. 87.00 Crore bank facilities of APL Metals Limited (APL). The outlook is **'Stable'**.

The rating upgrade is on account of overall improvement in business risk profile of the company marked by increase in the turnover levels along with continuous improvement in operating profitability margin during the period. Further, the rating upgrade also factors in the overall improvement in the financial risk profile marked by improving networth, gearing and debt protection metrics.

About the company

APL Metals Limited (APL), formerly known as Associated Pigments Limited, is a Kolkata based company, established in 1948 and commercial operations having begun in 1955. It is listed in Calcutta Stock Exchange Limited (CSE). APL is engaged in the manufacturing of refined lead, lead alloys and lead oxides, which are used in manufacturing of batteries, rolled extrusions, pigments used in paints, cable sheathing, ammunition etc. The company procures its key raw materials from India as well as abroad. Their installed capacity for refined lead, lead alloys and lead oxide is 50,000 MTPA, 50,000 MTPA and 7800 MTPA respectively. Exide Industries Limited is one of the key domestic customers for APL.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of APL while arriving at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The company has a long operational track record in the lead industry for more than 60 years. APL's board of directors comprise of Shri Sanjiv Nandan Sahaya as the Chairman and Managing Director, Mr. Sanjay Sarda, Mr. Raghav Bajoria, Mr. Prakash Kumar Damani and Mr. Rahul Damani as the other directors in the board. Acuite believes that the long operational track record of APL and long experience of the management will continue to benefit the company going forward, resulting in steady growth in the scale of operations.

Healthy business risk profile

The scale of operations of APL improved in FY2021 to Rs. 633.29 Crores in FY2021 over Rs. 517.97 Crores in FY2020. Further, the company reported revenues of Rs. 133.84 Crores in 3MFY22 (Prov). The growth in sales in FY 21 over FY 20 is attributable to better volumes as well as realization of prices, for their finished products. The operating margin improved marginally to 4.09 per cent in FY2021 from 3.94 per cent in FY2020, and PAT margin of the company increased to 1.06 per cent in FY2021 from 0.71 per cent in FY2020. Acuite believes that the company's business risk profile would remain healthy and its scale of operations would improve over the medium term with increase in their capacity utilization.

Average financial risk profile

The company's financial risk profile is marked by moderate net worth, high gearing and comfortable debt protection metrics. The tangible net worth of the company improved to Rs.33.38 Crores as on March 31, 2021 from Rs.19.94 Crores as on March 31, 2020. APL had issued non-convertible preference shares of Rs. 6.66 Crores, to be repaid in FY 2029, which has been treated as quasi-equity. Moreover, Acuite has also considered Rs. 6.67 crore of unsecured loans from directors and relatives as quasi capital as the amount is subordinated with bank

debt. The improvement in net worth is also on account of ploughing back of profits. The gearing of the company stood at 2.61 as on March 31, 2021 as compared to 4.10 as on March 31, 2020. The debt of Rs.87.19 Crores in FY 21 mainly consist of long term debt of Rs.22.99 crore and short term debt of Rs.55.79 Crores. Interest coverage ratio (ICR) stood comfortable at 1.70 times in FY 2021 as against 1.60 times in FY 2020. The Debt service coverage ratio (DSCR) also stood comfortable at 1.40 times in FY 2021 as against 1.23 times in FY 2020. The net cash accruals to total debt stood low at 0.09 times as on March 31, 2021. Acuite believes that going forward, the financial risk profile of the company will remain moderate backed by steady accruals and absence of any major debt funded capex plan.

Efficient working capital management

The efficient working capital management of the company is marked by Gross Current Assets (GCA) of 88 days as on March 31, 2021 as against 91 days as on March 31, 2020. Debtor days continue to remain low at 1 day as on March 31, 2021 as against 6 days as on 31st March 2020. Inventory days stood at 83 days as on March 31, 2021 as against 81 days as on 31st March 2020. Moreover, the company has utilized ~76 per cent for the last six month ended August 2021. Going forward, Acuite believes that the working capital operations of the company will remain at similar levels as evident from efficient collection mechanism and comfortable inventory levels over the medium term.

Weaknesses:

Customer concentration risk

More than 80 per cent of the revenues of APL is attributable to the sales made to Exide Industries Limited. However, the company benefits with the association of this reputed client for more than 50 years, thereby supporting the company to garner repeat orders. Acuite believes that going forward the company would continue to benefit with its association with Exide Industries Limited and simultaneously increase its export sales, thereby reducing the customer concentration risk to some extent.

Susceptible to the volatility in the raw material prices and government regulation

APL's main raw material i.e, lead, exhibits high volatility in terms of price. However, this risk is mitigated by the company's ability to simultaneously procure the raw materials as and when the order for sales is received. Moreover, the lead metal industry is also susceptible to the changes in government policies and environmental norms. Any non-compliance with the prevailing regulations and norms, could affect the operations of the company.

Intense competition in the industry

The lead industry is highly fragmented with the presence of both organized and unorganized players in the APL is engaged in both import of raw materials and export of finished goods, for which the company enjoys natural hedge. However, for the unhedged exposure, the company uses forward cover as a hedging tool for safeguarding against the forex risk involved.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Deterioration in the working capital cycle leading to stressed liquidity position

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is moderate on account of the fact that the fund based limit remains utilised at ~76 per cent over the six months ended August, 2021. However, the liquidity draws comfort on account of the healthy net cash accruals of APL, which stood at Rs.8.16 Crores in FY 2021 as against long term debt repayment of Rs. 1.50 Crores during the same period. The current ratio stood comfortable at 1.37 times as on March 31, 2021. The cash and bank balances of the company stood at Rs.7.00 Crores as on March 31, 2021 as compared to Rs.1.62 Crores as on March 31, 2020. Acuite believes that going forward the company will continue to maintain adequate liquidity position owing to steady accruals, gradual decrease in the debt obligations in

the absence of any debt funded capex plan in the near to medium term. APL also derives cushion in liquidity on account of the sanction of GECL aggregating Rs. 17.00 Crores in FY 21, for a tenure of five years.

Outlook: Stable

Acuite believes that APL will maintain a 'Stable' outlook and continue to benefit over the medium term from the extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue and profitability or stretch in working capital cycle, weakening the overall financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	633.29	517.97
PAT	Rs. Cr.	6.72	3.69
PAT Margin	(%)	1.06	0.71
Total Debt/Tangible Net Worth	Times	2.61	4.10
PBDIT/Interest	Times	1.70	1.60

Status of non-cooperation with previous CRA

Care Ratings, vide its press release dated May 6, 2021 had reaffirmed the rating of APL Metals Limited at 'CARE B+; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Crore)	
12-Aug-2020	Cash Credit	Long term	24.00	ACUITE BB+/Stable (Upgraded)
	Bill Discounting	Long Term	30.00	ACUITE BB+/Stable (Upgraded)
	Letter of Credit	Short Term	33.00	ACUITE BB+/Stable (Upgraded)
19-Jun-2020	Cash Credit	Long term	24.00	ACUITE BB (Downgraded; Indicative)
	Bill Discounting	Long Term	30.00	ACUITE BB (Downgraded; Indicative)
	Letter of Credit	Short Term	33.00	ACUITE BB (Downgraded; Indicative)
11-Apr-2019	Cash Credit	Long term	24.00	ACUITE BB+/Stable (Reaffirmed)

	Bill Discounting	Long Term	30.00	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	33.00	ACUITE BB+/Stable (Assigned)
22-Mar-2019	Cash Credit	Long Term	10.00	ACUITE BB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Indian Bank	Cash Credit	29-Mar-2019	Not Applicable	Not Applicable	24.00	ACUITE BBB-/ Stable (Upgraded)
Indian Bank	Bill Discounting	29-Mar-2019	Not Applicable	Not Applicable	30.00	ACUITE BBB-/ Stable (Upgraded)
Indian Bank	Letter of credit	29-Mar-2019	Not Applicable	Not Applicable	33.00	ACUITE BBB-/ Stable (Upgraded)

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About Acuité Ratings & Research:

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