Acuité
RATINGS & RESEARCH

Press Release

METALLOYS RECYCLING LIMITED

August 08, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** to the Rs. 45.00 crore bank facilities of METALLOYS RECYCLING LIMITED (MRL). The outlook is **'Stable'**.

Incorporated in 1987, MRL was promoted by the Porwal family. The company is engaged in the processing of secondary ferrous and non-ferrous metals, and its main products are copper scrap, aluminum scrap, zinc scrap, brass scrap, magnesium scrap, nickel scrap and blended stainless steel scrap. The products sold by MRL are used as basic raw materials for various copper alloys, various grades of brass, zinc alloys, aluminum alloys, nickel alloys and stainless steel production. MRL's processing unit is located at Kalyan (Thane), and office in Andheri (Mumbai).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MRL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and strong group support**
  The promoters of the company have more than three decades of experience in the metal industry. They have developed healthy relations with their suppliers and customers. Major customers include Jindal Stainless Limited, Nico Extrusions Limited and Viraj Profiles Limited. The promoters' extensive experience is reflected in its healthy turnover which grew from Rs.120.26 crore in FY17 to Rs.339.34 crore in FY19 (Prov.). Acuité believes that MRL will continue to benefit from extensive experience of promoters and established relations with its customers and suppliers.

Weaknesses

- **Average financial risk profile**
  The average financial risk profile of MRL is marked by moderate net worth, low gearing and moderate debt protection measures. The net worth of the company stood at Rs.36.90 crore as on March 31, 2019 (Prov.). Total debt of Rs.31.40 majorly includes Rs.10.12 crore of unsecured and term loan (Rs.3.46 crore maturing in FY20) and Rs.20.62 crore of working capital facilities consisting of cash credit facilities from multiple banks. Gearing increased to 0.85 times as on March 31, 2019 (Prov.) from 0.31 times as on March 31, 2018 due to unsecured business loans availed by the company at high rate of interest for meeting working capital requirements. The high interest cost is reflected in the interest coverage ratio which deteriorated to 1.80 times in FY2019 (Prov.) from 6.42 times in FY2018. Similarly, the DSCR declined to 1.37 times in FY2019 (Prov.) against 4.22 times in FY2018. Working capital operations stood moderate with GCA of 103 days in FY2019 (Prov.) against 85 days in FY2018. Acuité believes that sustainability of revenues alongwith improvement in profitability and liquidity position will be the key rating sensitives.

- **Customer concentration**
  About 75-80 per cent of the total sales are derived from the top three customers – Jindal Stainless Limited, Nico Extrusions Limited and Viraj Profiles Limited during the last three years. Thus, the company is exposed to customer concentration risk.

- **Volatility in profitability**
  The profitability of the company has been volatile in the last three years. Operating margins stood at 1.73 per cent in FY2019 (Prov.) against 3.46 per cent in FY2018 and 1.93 per cent in FY2017. Similarly, PAT margins stood at 0.39 per cent in FY2019 (Prov.) against 2.27 per cent in FY2018 and 0.78 per cent in FY2017.

Liquidity Position:
Liquidity of MRL is stretched as evident from full utilisation of bank limits. Moreover, the company had relied on unsecured loans from various NBFC's for meeting its additional working capital requirements. The net cash accruals stood in the range of Rs.2.00-6.00 crore during the last three years. The company's working capital operations are moderate as marked by gross current asset (GCA) of 103 days in FY2019 (Prov.) against 85 days in FY2018. The cash credit limit in the company remained fully utilized during the last six months ended June 2019. The company maintains unencumbered cash and bank balances of less than Rs.0.01 crore as on March 31, 2019 (Prov.). The current ratio of the company stood moderate at 1.52 times as on March 31, 2019 (Prov.). Acuité believes that the liquidity of the company will remain stretched over the near term on account of significant repayment obligations maturing in FY20.

Outlook: Stable
Acuité believes that MRL will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues and higher-than-expected improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	339.34	210.73	120.26
EBITDA	Rs. Cr.	5.86	7.29	2.33
PAT	Rs. Cr.	1.33	4.77	0.94
EBITDA Margin	(%)	1.73	3.46	1.93
PAT Margin	(%)	0.39	2.27	0.78
ROCE	(%)	11.34	16.49	6.03
Total Debt/Tangible Net Worth	Times	0.85	0.31	0.20
PBDIT/Interest	Times	1.80	6.42	4.38
Total Debt/PBDIT	Times	4.23	1.46	2.86
Gross Current Assets (Days)	Days	103	85	134

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50^	ACUITE B+ / Stable(Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.58	ACUITE B+ / Stable(Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00#	ACUITE B+ / Stable(Assigned)
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	23.92	ACUITE B+ / Stable(Assigned)

^LC Rs.7.50 crore sublimit of CC.

#LC Rs.5.00 crore sublimit of CC.

Contacts

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About Acuité Ratings & Research:
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