

## Press Release

### Metalloys Recycling Limited

November 02, 2020

### Rating Upgrade



|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs.45.00 Cr.*  |
| <b>Long Term Rating</b>             | ACUITE BB-/Outlook: Stable<br>(Upgraded from ACUITE B+/Stable) |

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.45.00 crore bank facilities of Metalloys Recycling Limited (MRL). The outlook is '**Stable**'.

### Revision in Rating

The rating is upgraded on account of the significant improvement in profitability margins and net cash accruals of the company resulting in improvement in the financial risk profile. The company operating margins stood improved at 3.91 percent in FY2020 (Provisional) as against 0.95 percent in FY2019. Also, PAT margins stood improved at 1.37 percent in FY2020 (Provisional) as against 0.23 percent in FY2019. The net cash accruals improved to Rs.3.99 crore in FY2020 (Provisional) as against Rs.1.81 crore in FY2019. Further, the company has registered revenue of Rs.101.00 crore in 6MFY2021 (Provisional). Acuité believes going ahead the company is likely to sustain the growth in revenues and profitability margins over the medium term.

### About Company

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 profile of MRL to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### • Established track record of operations and experienced management:

MRL was incorporated in the year 1987 and has established the presence of over three decades in the metal recycling industry. The company is promoted by Mr. Ambalal Porwal and Mr. Vijay Mohanlal Porwal, who possess over 3 decades of experience in the industry. The extensive experience of the promoters and the established presence of the company has helped in maintaining healthy relations with reputed customers like Jindal Stainless Limited, Nico Extrusions Limited, among others.

Acuité believes that the company will benefit from its experienced management, long-standing relations with customers over the medium term.

#### • Healthy financial risk profile

The company's healthy financial risk profile is marked by moderate net worth, low gearing (debt-equity) and comfortable debt protection metrics. The tangible net worth of the company stood at Rs.40.91 crore as on 31 March, 2020 (Provisional) as against Rs.38.09 crore as on 31 March, 2019. The total debt of Rs.23.25 crore as on 31 March, 2020 (Provisional) consist of long term borrowings of Rs.1.98 crore, unsecured loan

from the financial institution of Rs.3.00 crore and short term borrowing of Rs.18.26 crore. The gearing (debt-equity) stood low at 0.57 times as on 31 March, 2020 (Provisional) as compared to 0.78 times as on 31 March, 2019. The Interest Coverage Ratio stood comfortable at 2.51 times for FY2020 (provisional) as against 1.75 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood low at 0.93 times as on 31 March, 2020 (Provisional) as against 1.84 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.17 times for FY2020 (Provisional). Debt Service Coverage Ratio (DSCR) stood at 1.58 times in FY2020 (Provisional) as against 2.04 times in FY2019.

Acuite believes that the financial risk profile of MRL will continue to remain comfortable over the medium term on account of conservative financial policy and absence of any major debt-funded capital expenditure.

## Weaknesses

### • Intensive working capital cycle

The company has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 122 days in FY2020 (Provisional) and 106 days in FY2019. The receivable days stood at 30 days in FY2020 (Provisional) as against 24 days in FY2019. The inventory days stood at 52 days in FY2020 (Provisional) as against 46 days in FY2019. The average bank limit utilisation stood high at ~95.00 percent for the past 9 months ending September 2020.

Acuite believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

### • Customer concentration risk

The company faces a customer concentration risk. About ~58 per cent of the total sales are derived from Nico Extrusions Limited for the period ended FY2020. However, reputed clientele and recurring flow of orders from key customers reduce concentration and counterparty risk to a certain extent.

## Rating Sensitivities

- Sustaining existing scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

## Material Covenants

None

## Liquidity Position: Stretched

MRL has a stretched liquidity position marked by moderate net cash accruals to its maturing debt obligations. MRL generated cash accruals of Rs.4.00-5.50 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.50-3.20 crore over the same period. The working capital cycle of the company is intensive, marked by Gross Current Assets (GCA) days of 122 days in FY2020 (Provisional) and 106 days in FY2019. The average bank limit utilisation stood high at ~95.00 percent for the past nine months ending August 2020. MRL maintained unencumbered cash and bank balances of Rs.0.03 crore as on March 31, 2020 (Provisional). The current ratio of MRL stood moderate at 2.00 times as on March 31, 2020 (Provisional). Acuite believes that the liquidity of MRL is likely to remain stretched over the medium term.

## Outlook: Stable

Acuite 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 a 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    | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income              | Rs. Cr. | 206.97             | 339.18        |
| PAT                           | Rs. Cr. | 2.83               | 0.77          |
| PAT Margin                    | (%)     | 1.37               | 0.23          |
| Total Debt/Tangible Net Worth | Times   | 0.57               | 0.78          |
| PBDIT/Interest                | Times   | 2.51               | 1.75          |

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

Not Applicable

### Any other information

None.

### Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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 (Rs. Cr.) | Ratings/Outlook             |
|----------------|---------------------------------|-----------|------------------|-----------------------------|
| 08-August-2019 | Cash Credit                     | Long Term | 7.50             | ACUITE B+/Stable (Assigned) |
|                | Cash Credit                     | Long Term | 3.58             | ACUITE B+/Stable (Assigned) |
|                | Cash Credit                     | Long Term | 10.00            | ACUITE B+/Stable (Assigned) |
|                | Proposed Bank Facility          | Long Term | 23.92            | ACUITE B+/Stable (Assigned) |

### \*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 BB-/Stable (Upgraded from ACUITE B+/Stable) |
| Cash Credit            | Not Applicable   | Not Applicable | Not Applicable | 3.58                        | ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable) |
| Cash Credit#           | Not Applicable   | Not Applicable | Not Applicable | 10.00                       | ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable) |
| Proposed Bank Facility | Not Applicable   | Not Applicable | Not Applicable | 23.92                       | ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable) |

^LC Rs.7.50 crore sublimit of CC.

#LC Rs.5.00 crore sublimit of CC.

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## About Acuité Ratings & Research:

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