

Press Release

Metalloys Recycling Limited

January 24, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

*Refer Annexure for details.

Rating Rationale

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

Rationale for upgrade in rating

The upgradation of rating factors the improvement in scale of operation with stable profitability margins, firm's ability to maintain a healthy financial risk profile with healthy net worth, low gearing and moderate debt protection matrices and adequate liquidity with efficient working capital operations. However, rating is constrained by customer and supplier concentration risk and the ability to sustain the improvement in the scale of operation with profitability margin in the medium term.

Acuite expects the business and financial performance is likely to improve over the medium term.

About the Company

Incorporated in 1987, MRL is a Mumbai based company promoted by Mr. Ambalal Porwal and Mr. Vijay Mohanlal Porwal, who possess over 3 decades of experience in the industry. 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. Also, the operating income of the company improved and stood at Rs.318.40 crore in FY2021 as against Rs.206.86 crore in FY2020. EBIDTA margin stood at 3.26 percent in FY2021 as against 3.72 percent in FY2020 while PAT margin stood at 1.37 percent in FY2021 as against 1.36 percent in FY2020.

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 financial risk profile of the company stood healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth stood at Rs.45.23 crore as on March 31, 2021 as against Rs.40.87 crore as on March 31, 2020. The improvement in net worth is due to healthy accretion of profits in the reserve. The total debt of the company stood at Rs.30.58 crore includes Rs.9.98 crore of long term debt and Rs.20.60 crore of short term debt as on March 31, 2021 (Prov.). The company follows a conservative financial policy with gearing (debt-equity) stood at 0.68 times as on March 31, 2021 and at 0.57 times as on March 31, 2020. Interest Coverage Ratio stood at 3.48 times for FY2021 as against 2.45 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 1.76 times for FY2021 as against 1.06 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.83 times as on March 31, 2021 as against 0.92 times on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood moderate at 0.19 times for FY2021 as against negative 0.17 times for FY2020.

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

Efficient working capital operations

The company has an efficient working capital cycle marked by Gross Current Assets (GCA) days of 85 days in FY2021 as against 121 days in FY2020. The receivable days stood at 19 days in FY2021 as against 30 days in FY2020. The inventory days stood at 43 days in FY2021 as against 51 days in FY2020. The average bank limit utilization stood high at around 86 percent for the last 11 months ended November 2021.

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

Weaknesses

Customer concentration risk

The company faces a customer and supplier concentration risk. About ~48 per cent of the total sales and ~39 percent of the total purchases are derived from Nico Extrusions Limited for the period ended FY2021. However, reputed clientele, long-standing relationship and recurring flow of orders from key customers reduce concentration and counterparty risk to a certain extent.

Intense Competition and Volatility in Raw Material Prices

The industry remains fragmented and unorganized due to presence of various players with limited differentiation in end products. The industry is also exposed to cyclical and volatility of raw material prices.

Rating Sensitivities

Sustaining the scale of operations and improving the profitability margins leading to improvement in overall financial risk profile.

Any further stretch in the working capital cycle and liquidity profile of the firm.

Material covenants

None.

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.80-5.70 crore during the last three years through 2019-21, while the maturing debt obligation is in the range of Rs.1.80-3.00 during the same period. The company's working capital operation stood efficient marked by GCA days of 85 days in FY2021 as against 121 days in FY2020. The company maintains an unencumbered cash and bank balances of Rs.0.01 crore as on March 31, 2021. The current ratio of the company stood at 2.44 times as on March 31, 2021 (Prov.). The average bank limit utilization stood high at around 86 percent for the last 11 months ended November 2021.

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 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	318.40	206.86
PAT	Rs. Cr.	4.36	2.82
PAT Margin	(%)	1.37	1.36
Total Debt/Tangible Net Worth	Times	0.68	0.57
PBDIT/Interest	Times	3.48	2.45

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 Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Dec 2020	Proposed Bank Facility	Long Term	23.92	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	3.58	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	7.50	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BB- Stable (Reaffirmed)
02 Nov 2020	Cash Credit	Long Term	10.00	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	7.50	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Proposed Bank Facility	Long Term	23.92	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	3.58	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
08 Aug 2019	Cash Credit	Long Term	7.50	ACUITE B+ Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE B+ Stable (Assigned)
	Cash Credit	Long Term	3.58	ACUITE B+ Stable (Assigned)
	Proposed Bank Facility	Long Term	23.92	ACUITE B+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB+ Stable Upgraded (from ACUITE BB-)
Deutsche Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.77	ACUITE BB+ Stable Upgraded (from ACUITE BB-)
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	24.50	ACUITE BB+ Stable Upgraded (from ACUITE BB-)
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+ Stable Upgraded (from ACUITE BB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.73	ACUITE BB+ Stable Upgraded (from ACUITE BB-)

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About Acuité Ratings & Research

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