Press Release

Moogambigai Metal Refineries

September 20, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE BB-/ Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs. 9.00 crore bank facilities of Moogambigai Metal Refineries (MMR). The outlook is **'Stable'**.

Moogambigai Metal Refineries (MMR) was established in the year 2010 as a partnership firm. MMR is engaged in the business of recycling of plastic containers of lead acid batteries into plastic granules and chips. They are also engaged in recycling of electronic waste into metal scrap, plastic and glass. Initially, the firm was engaged in the business of aluminium smelting and over a period, it moved to e-waste and plastic recycling. The firm is a part of Jayachandran Group.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MMR to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

MMR is promoted by Mr. A. Harisudhan, Mr. P. Anbalagan, Mr. P. Arumugam, Mr. A. Sabarinathan, Mr. Nithin Arumugam, Mr. C. Pradeep, Mr. P. Chandrasekharan, Mr. P. Ramalingam, Mr. C. Prasath and Mr. C. Bharanikumar, who are having three decades of experience in trading of nonferrous metals, manufacturing of lead alloys and battery manufacturing. The promoters also operate other entities such as Jayachandran Industries Private Limited, which is into manufacturing of lead acid batteries for automotives and invertor systems and Eswari Global Metal Industries Private Limited, which is into manufacturing of lead and lead-based alloys from lead battery scrap. As a backward integration, the firm has started operations of recycling of plastic containers and electronic waste under MMR; however, the transactions continues to be at arms' length. Mr. A. Harisudhan looks after the day-to-day operations of the firm. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. MMR sources the raw materials from Eswari Global Metals Private Limited, Bosche Limited and Schneider Electric Infrastructure Limited amongst others. The PPCP granules, recycled from the plastic wastes, are majorly sold to the automobile industry. About 60 per cent of its purchases and 15 of sales are with Eswari Global Metals Private Limited. The revenues have seen a compound annual growth rate (CAGR) of about 29.97 per cent over past three years through FY2019 (provisional) at Rs. 31.02 crore though modest. Acuite believes that the promoters' long-standing presence and increasing penetration of battery market is expected to support improvement of its business risk profile over the medium term.

- **Efficient working capital management**

MMR's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 78 days as on March 31, 2019 (provisional). The firm maintains raw material inventory of around 27-30 days. MMR extends a credit period of around 30-34 days to its customers. On the other hand, the firm has to make advance payment to its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average of 68 per cent over the last five months through August 2019; although the peak utilization is high at around 97 per cent during the same period. Acuite expects the working capital management to remain efficient over the medium term on account of the limited credit period extended to its customers.

Weaknesses

- **Moderate financial risk profile**

MMR's financial risk profile is moderate, marked by moderate gearing (debt-to-equity) and comfortable debt protection metrics.

The firm has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing levels of 3.67 times as on March 31, 2017. The leverage levels, however, have improved to around 2.60 times as on March 31, 2019 (provisional). The firm incurred capex of Rs. 14.64 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs. 1.68 crore. The firm, on the other hand, generated cash accruals in the range of Rs. 0.79-1.77 crore over the same period. The firm has taken a term loan of Rs. 6.46 crore for purchasing a new plot of land. This has led to increase in debt levels as on March 31, 2019. The gearing, however, is expected to be moderate to 1.71 times as on March 31, 2020 on back of comfortable cash accruals.

The revenues of the firm increased by around 67 per cent to Rs. 31.02 crore during 2018-19, while it's operating margins were remained stable in the range of 10.34-15.64 per cent. The comfortable profitability levels coupled with moderate debt levels has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were healthy at 0.15 per cent and 3.40 times, respectively.

The firm procures 85 per cent of its total raw material requirements, while there are no export sales.

Acuite expects the financial risk profile to improve over the medium term on account of stabilization in the operations of the firm, improving profitability, and improvement in the cash accruals.

- **Susceptibility of operating margins to volatility in raw material prices**

MMR recycles electronic and plastic wastes, which is sold to the automobile industry, where the firm has limited bargaining power due to high competitive pressures within the industry. The firm, on the other hand, procures electronic and plastic wastes through domestic markets, the prices of which have remained volatile in the past. Further, MMR has limited flexibility while passing on the raw material price changes to the customers leading to volatile profitability.

Acuite believes that the operating margins of the firm are likely to remain susceptible to volatility in raw material prices over the medium term.

- **Risk of government regulations**

MMR's plastic recycling division is exposed to the inherent risk of government regulations against the use of plastic items. Introduction of any new regulation, or amendment of any existing provisions with respect to the same will have a negative impact on the firm's operating income.

Liquidity Position

The liquidity position of MMR is adequate. The net cash accruals of the firm have been in the range of Rs.0.79- 1.77 crore during the period under study. Its accruals are expected in the range of Rs. 2.8 –4.5 crores, against which its obligations are about Rs. 1.08 crore, and it is not planning for any significant debt-funded capex. Its limits are moderately utilised at 68 per cent during the last five months through August 2019. Acuité believes that going forward, the liquidity position of the firm will continue to remain adequate in the medium term on account comfortable cash accruals and absence any debt- funded capex.

Outlook: Stable

Acuite believes that MMR will continue to benefit over the medium term due to the experience of its senior management, reputed suppliers and moderate financial risk profile. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through capital infusion. Conversely, the outlook may be revised to 'Negative', in case of any significant stretch in its working capital cycle, or any significant withdrawal of capital or large debt-funded capex or sharp decline in profitability thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	31.02	18.51	14.13
EBITDA	Rs. Cr.	3.21	2.89	1.18
PAT	Rs. Cr.	0.92	1.36	0.35
EBITDA Margin	(%)	10.34	15.64	8.32
PAT Margin	(%)	2.98	7.37	2.51
ROCE	(%)	18.04	30.09	13.38
Total Debt/Tangible Net Worth	Times	2.60	2.57	3.67
PBDIT/Interest	Times	3.40	12.55	4.64
Total Debt/PBDIT	Times	3.79	2.33	3.78
Gross Current Assets (Days)	Days	78	144	90

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Applicable Criteria
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-4.htm
- Application of Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.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	2.00	ACUITE BB- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.46	ACUITE BB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.54	ACUITE BB- / Stable (Assigned)

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About Acuité Ratings & Research:

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