



SMERA RATINGS LIMITED

PAMI METALS PRIVATE LIMITED (PMPL)

Rating Rationale

September 5, 2013

Instrument	Amount (Rs. Crores)	Ratings
Cash Credit	27.65	SMERA BB-/Stable/ Assigned
Term Loans	4.15	SMERA BB-/Stable/ Assigned
Bank Guarantee	1.00	SMERA A4+/Assigned
Standby line of credit	2.00	SMERA A4+/Assigned

SMERA has assigned ratings of '**SMERA BB-**' (read as **SMERA Double B minus**) to the Rs.31.80 crores long term facilities (fund based) and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.3.00 crores short term facilities (non-fund based) of Pami Metals Private Limited (PMPL). The outlook is '**Stable**'. The ratings are primarily constrained by the company's small scale of operations, susceptibility to raw material price volatility, working-capital-intensive operations and high leverage. The ratings are further constrained by the competitive and fragmented nature of the copper components industry. The ratings however derive support from the company's long track record of operations, experienced management and long-standing association with reputed customers.

PMPL is engaged in manufacturing of copper components, copper extrusions and fabricated sheet metals. The company also undertakes assembling of high tension panels. PMPL has a long operational track record of more than two decades in the copper components industry. The company's revenues have increased consistently over the last five years at a CAGR of about 33 per cent and are expected to grow further on account higher capacity utilization. The company is reaping the benefit of economies of scale on account of increased order inflows, which has led to improvement in profit margins during the period under consideration. PMPL's operating profit margin has improved from 5.71 per cent in FY2008-09 (refers to financial year, April 01 to March 31) to 9.43 per cent in FY2011-12. The company's net profit margin improved from 1.50 per cent in FY2008-09 to 2.17 per cent in FY2011-12.

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(PMPL)

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Manufacturing of copper components, copper extrusions and fabricated metal sheets accounts for about 80 per cent of the company's total revenues. Moreover, PMPL holds inventory of about 90 days (FY2012-13), which makes the company's profitability highly susceptible to adverse changes in copper prices. However, this risk is partially mitigated by back-to-back orders placed by the company. PMPL has negative working capital as on March 31, 2012 on account of stretched payables and high current portion of long term debt (Rs.1.87 crores). The company's average working capital limit utilization stood at ~92 per cent over the six months ending June 2013. PMPL's total debt increased from Rs.11.01 crores as on March 31, 2010 to Rs.16.81 crores as on March 31, 2011 on account of debt-funded capital expenditure. The company's leverage is high with total debt-to-equity ratio at 2.25 times as on March 31, 2012.

Outlook: Stable

PMPL has a 'Stable' outlook. SMERA believes that PMPL will continue to maintain its business profile at a moderate level on the back of its long-standing association with reputed customers. However, the company's ability to scale up its operations while improving profitability and managing raw material price volatility remains the key rating sensitivity. The outlook may be revised to 'Positive' if the company is successful in scaling up its operations significantly while improving the capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the company's financial risk profile resulting from high level of debt-funded capital expenditure or significant decline in profitability and cash accruals.

About the company

PMPL is a Kolkata-based company incorporated in 1989 by Mr. Gopi Kishan Damani and Mr. Rajesh Gopi Kishan Damani. The company is engaged in manufacturing of copper components, copper extrusions and fabricated sheet metals. The company also undertakes assembling of high tension panels (HT panels). PMPL mainly caters to the power transmission and automobile sector. The company has a manufacturing and assembly unit in Kolkata, Paschim Banga, with an annual capacity of manufacturing 1,800 metric tonnes of copper components (including copper extrusions) and assembling 1,800 units of HT panels. The company also has an assembling unit in Vadodara, Gujarat, with an annual capacity of assembling 1,800 units of HT panels.

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In FY2011–12, PMPL reported net profit of Rs.1.05 crores on total income of Rs. 48.27 crores as compared with net profit of Rs.0.93 crores on total income of Rs.46.77 crores in FY2010–11. Further, the company registered revenues of Rs.61.58 crores and net profit of Rs.1.47 crores in FY2012–13 (provisional). The company's net worth stood at Rs.12.55 crores (provisional) as on March 31, 2013.

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