July 28, 2023

Metco Roof Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	23.00	30.00	[ICRA]BBB-(Stable); reaffirmed
Long-term – Fund-based – Cash credit	24.72	16.00	[ICRA]BBB-(Stable); reaffirmed
Short-term – Non-fund-based – Others	32.00	26.00	[ICRA]A3; reaffirmed
Long-term/Short-term – Unallocated	0.00	7.72	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Total	**79.72**	**79.72**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Metco Roof Private Limited’s (MRPL) healthy financial risk profile, extensive experience of its promoters in the steel roofing industry and its diversified customer base. MRPL’s healthy financial risk profile is characterised by comfortable leverage metrics with Total Debt/OPBDITA at 0.2 times (PY: 0.5 times) and TOL/TNW at 0.6 times (PY: 0.9 times) as of March 2023 and healthy debt coverage metrics due to low debt levels. Although it has capex plans of Rs. 35-40 crore in FY2024 towards product expansion, which is proposed to be funded by the Rs. 30-crore sanctioned term loan, the debt coverage metrics are expected to remain healthy over the medium term. MRPL has a diversified customer base across varied industries with low customer concentration risk. The top 10 customers contributed to 26% (PY: 30%) of its total sales in FY2023. The ratings note the extensive experience of promoters in the steel roofing industry spanning over three decades.

The ratings are, however, constrained by its moderate scale of operations limiting its operational and financial flexibility. Though MRPL’s revenues are expected to grow by around 11-12% in FY2024, the scale is likely to remain moderate at around Rs. 135-140 crore in FY2024. Notwithstanding some improvement in operating margins to 5.7% in FY2023 (PY: 4.9%), the company’s margins are moderate and are exposed to volatility in the raw material prices of colour coated steel and galvanised steel coils. In addition, due to moderate capacity utilisation of the existing plants, MRPL’s return on capital employed (RoCE) remained low at 9.1% as on March 31, 2023, which is likely to further moderate with the planned capex in FY2024.The ratings also consider the intense competition in the steel roofing and pre-engineered building (PEB) industry from both organised and unorganised entities on account of low entry barriers.

The Stable outlook reflects ICRA’s opinion that MRPL will continue to benefit from the significant experience of the promoters and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter in roofing industry – MRPL’s promoters are involved in the steel roofing industry for over three decades. It is among one of the established players in Tamil Nadu in the steel roofing segment and had expanded into a new range of sheets called clip-lock sheets.

Diversified customer base across varied industrial segments – MRPL caters to a wide set of customers and products, that are generally used for building factories and warehouses. Its customer concentration is low with top 10 customers contributing to 26% of the total sales in FY2023 against 30% in FY2022. Its customers are from diverse industries such as textiles, warehousing, construction, etc, which mitigates the demand risk arising from downturn in any particular industrial segment. However, the demand in general is susceptible to the general trend in capital investments that may vary across industries.

Comfortable financial profile – MRPL's low debt of Rs. 1.25 crore as on March 31, 2023 resulted in comfortable leverage and coverage metrics with TD/OPBIDTA at 0.2 times (PY: 0.5 times) and TOL/TNW at 0.6 times (PY: 0.9 times) as of March 2023. The coverage metrics stood healthy with interest coverage and DSCR estimated at 13.1 times and 10.0 times, respectively, for FY2023. Although MRPL has capex plans of Rs. 35-40 crore in FY2024 towards product expansion, which is proposed to be funded by Rs. 30 crore sanctioned term loan, the debt and leverage coverage metrics are expected to remain comfortable over the medium term.

Credit challenges

Moderate scale of operations and operating margins exposed to raw material price volatility – While MRPL's revenues are expected to grow by around 11-12% in FY2024, the scale is likely to remain moderate at around Rs. 135-140 crore in FY2024 limiting its operational and financial flexibility. In addition, its margins are moderate and are exposed to volatility in raw material prices of colour coated steel and galvanised steel coils. Though the production is order backed, raw material holding exposes its operating margins to price volatility. Further, due to moderate capacity utilisation of the existing plants, MRPL's RoCE remained low at 9.1% as on March 31, 2023, which is likely to moderate with the planned capex in FY2024.

Intense competition in industry – MRPL operates in the steel roofing and PEB industry. It is characterised by intense competition from both organised and unorganised entities on account of low entry barriers due to relatively low capital requirement.

Liquidity position: Adequate

MRPL's liquidity is adequate as reflected by free cash balances of Rs. 13.4 crore as of May 2023 and healthy cushion in working capital limits. Further, it has enhanced its fund-based limits to Rs. 28 crore from Rs. 16 crore as of June 2023. The company has capex plans of Rs. 35-40 crore in FY2024 towards new product expansion, which will be funded by sanctioned debt of Rs. 30 crore and the balance through its internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if MRPL demonstrates a significant improvement in revenues and profitability while maintaining healthy capitalisation and coverage metrics.

Negative factors – Negative pressure on the ratings could arise if there is a significant decline in revenue or margins, leading to weakening of liquidity and coverage indicators. Specific credit metrics that may lead to a downgrade include DSCR weakening to less than 1.4 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]()
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

MRPL is into steel sheeting, purlin and PEB segments with a total capacity of 25,200 MT per annum. Its production facilities are in Pondicherry, Tamil Nadu, Gujarat, and Karnataka. All the roofing sheets and PEB products are approved by the state PWD, Central PWD, Military Engineering Service, Engineers India Ltd and Hindustan Prefab Ltd. Roofing sheets and purlins are made in all the factories. Decking sheets are made in Ranipet and Jhagadia. PEB is primarily made in the Pondicherry factory.

Key financial indicators

Standalone	FY2022	FY2023
	Audited	Provisional
Operating income	137.6	122.0
PAT	4.1	4.2
OPBDIT/OI	4.9%	5.7%
PAT/OI	3.0%	3.4%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	0.5	0.2
Interest coverage (times)	14.5	13.1

Source: Company, ICRA Research

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the Past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 28, 2023	May 31, 2022 May 12, 2022	Feb 25, 2022	Dec 24, 2020
1	**Fund-based – Term loan**	Long term	30.00	0.0*	**[ICRA]BBB- (Stable);**	**[ICRA]BBB- (Stable)**	**[ICRA]BB+ (Stable); ISSUER NOT COOPERATING**	**[ICRA]BBB- (Stable)**
2	**Fund-based – Cash credit**	Long term	16.00	-	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BB+ (Stable); ISSUER NOT COOPERATING**	**[ICRA]BBB- (Stable)**
3	**Non-fund based – Others**	Short term	26.00	-	**[ICRA]A3**	**[ICRA]A3**	**[ICRA] A4+; ISSUER NOT COOPERATING**	**[ICRA]A3**
4	**Unallocated**	Long Term and Short term	7.72	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-	-

**Yet to be drawn*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Cash credit	Simple
Non-fund based – Others	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	16.00	[ICRA]BBB- (Stable)
NA	Non-fund based	NA	NA	NA	26.00	[ICRA]A3
NA	Term loan	FY2024	NA	FY2030	30.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	7.72	[ICRA]BBB- (Stable)/[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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