

October 24, 2024

## Shetron Limited: Ratings reaffirmed; outlook revised to Positive and rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Term Loan	24.32	18.16	[ICRA]BB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long-term, Fund-based Cash Credit	28.75	33.75	[ICRA]BB+ (Positive); reaffirmed and assigned for enhanced limits; Outlook revised to Positive from Stable
Short-term, Non-fund Based Limits	42.00	49.00	[ICRA]A4+; reaffirmed and assigned for enhanced limits
Long-term/Short-term, Unallocated	0.55	0.00	-
<b>Total</b>	<b>95.62</b>	<b>100.91</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the outlook to Positive for Shetron Limited (Shetron) considers the expectation of a sustained improvement in its credit profile in the near-to-medium term, driven by expected returns from the capacities added in the food can division, where the demand prospects remain favourable. The ratings remain supported by the extensive experience of its promoters for more than three decades in the metal packaging and battery jackets manufacturing business, a reputed customer profile in the battery, and food and beverages (F&B) segments, and its established relationships with its domestic and overseas suppliers. Despite revenues remaining flat at Rs. 240.4 crore in FY2024, with a moderation in raw material prices, its operating margins expanded by 45 bps to 9.8%. The ratings also consider the steady improvement in its credit profile with the interest coverage and debt service coverage indicators improving to 2.7 times and 1.7 times, respectively in FY2024, from 2.3 times and 1.6 times, respectively in FY2023.

The ratings, however, remain constrained by the vulnerability of margins to raw material price fluctuations and moderate scale of operations where growth is limited due to range-bound sales generated from the battery jackets segment due to limited demand. However, the same is expected to be covered by the incremental sales from the food can segment. The ratings also remain constrained by its working capital-intensive nature of operations due to high inventory holding, the company's vulnerability to adverse fluctuations in foreign exchange (forex) rates and supplier concentration risks.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in the metal packaging and battery jackets manufacturing sector** – Shetron's operations are managed by Mr. Diwakar Shetty, Mr. Kartik Nayak and Mr. Praveen Mally, who have vast experience of more than three decades in the industry. This has helped the company establish its position in the market and grow its relationships with its overseas as well as domestic suppliers.

**Reputed customer profile in the battery, food and pharma sectors** – Shetron's customer base consists of reputed battery manufacturers, FMCG firms, manufacturers of packaged foods, and fruit processors. The company has also a presence in the pharma sector. It has been present in the domestic as well as international markets, garnering repeat orders from its clients over the years.

**Steady improvement in debt protection metrics coupled with favourable market prospects for F&B tin cans amid increasing consumer demand and ban on plastics** – While its revenues remained flat at Rs. 240.4 crore in FY2024, moderation in the raw material prices supported a 45 basis points improvement in operating margins to 9.8% on a year-on-year basis. Further, debt protection metrics improved with TD/OPBIDTA at 2.7 times in FY2024 from 3.0 times in FY2023 and the interest coverage improving to 2.7 times in FY2024 from 2.3 times in FY2023. In Q1 FY2025, the entity reported revenues of Rs. 64.6 crore with a PAT of Rs. 1.5 crore. The debt protection metrics are further expected to improve with no major debt-funded capex planned in the near-to-medium term and reduction in the long-term debt with ongoing repayments. There is also an increasing consumer awareness on environmental issues and ban on plastics, with demand for recyclable metal increasing over the years. Moreover, the changing lifestyle of consumers has also led to higher demand for canned F&B products, which offer favourable revenue prospects for Shetron. Further, the company has ventured into the general packaging business, which offers lesser seasonality than food packaging and augurs well for its growth prospects.

### Credit challenges

**Moderate financial risk profile** – The overall financial risk profile of the company remains moderate. While the operating margin improved to 9.8% in FY2024, it was lower than 10-12% margins witnessed in the past, on account of lower margins on food cans compared to batteries. While debt protection metrics have improved over the last two fiscals, they remain within the moderate levels.

**Working capital intensive nature of operations** – The working capital intensity (NWC/OI) of the company stood high at 28% in FY2024 due to higher inventory holding. The raw material inventory remained high due to the lengthy end-to-end manufacturing cycle. This also led to high reliance on working capital borrowing. Moreover, Shetron's ability to manage the cash flows and debtors' recovery will be critical from the liquidity perspective.

**High supplier concentration risk** – Shetron procures its raw materials from domestic as well as overseas markets like Taiwan, China, Japan, South Korea and Germany. The supplier base of the company has remained concentrated with a single supplier meeting ~51% and ~47% of its total requirements in FY2023 and FY2024, respectively. While dependence on a single customer has reduced, it still remains high.

**Vulnerability of margins to forex rates and raw material price risks** – As tin plates are the primary raw materials for manufacturing battery jackets and cans, the company's profitability remains vulnerable to variation in tin prices. Moreover, with exports accounting for 20-22% of Shetron's revenues in the last three years, it exposes the company's profitability to volatility in forex rates. However, the risk is partially mitigated by the natural hedge through imports as Shetron imported 12-15% of its raw material requirements in the last three years.

### Environmental and Social Risks

**Environmental considerations:** The company is exposed to tightening regulations on emissions standards, waste generation and its disposal. However, the company strives for using natural resources efficiently, eliminating waste and promoting recycling of resources. The potential of metals for reusability and their accessibility for infinite recyclability without any degradation in the physical properties help protect raw materials and energy, and reduce CO2 emission, which add comfort to the tightening regulations.

**Social considerations:** The company is exposed to the social risk of workers' safety and well-being. However, the company complies with all labour laws and takes necessary measures to maximise workers' protection and safety. Shetron also takes care of health issues of employees inside and outside the plant.

## Liquidity position: Adequate

Shetron's liquidity position remains adequate with expected cash flow from operations of Rs. 11-12 crore to cover its repayment obligations of Rs. 4.5 crore in FY2025 and Rs. 3.8 crore in FY2026. The company has no major debt-funded capex plans in the near-to-medium term. Further, it had a buffer of ~11% of the sanctioned working capital limit of Rs. 33.75 crore during the 12-month period ending in August 2024.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if the company demonstrates growth in its scale of operations as well as profit margins on a sustained basis, leading to strengthening of the coverage metrics. Its ability to efficiently manage its working capital cycle, leading to improvement in its liquidity profile will also be a positive rating trigger. Specific credit metrics that could lead to a rating upgrade will be interest coverage over 3x on a sustained basis

**Negative factors** – The ratings may be downgraded if the company's revenues witness significant degrowth, deteriorating profitability levels, or if there is any weakening of debt coverage indicators, or stretch in the working capital cycle, or higher dividend payout, weakening the overall liquidity profile. Specific credit metrics that could lead to a rating downgrade will be interest coverage less than 2.3x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the standalone financials of the company for arriving at the ratings.

## About the company

Shetron Limited is a metal packaging company focused on creating packaging solutions for the food industry. Incorporated in 1980, it commenced production of metal cans for foods, and dry cell battery jackets and components from 1984. The company was listed on BSE in 1994. Its manufacturing plants are in Bangalore, Karnataka and at Asangaon, Maharashtra. Shetron supplies metal packaging, printed metal sheets and dry cell battery jackets and components. The company is one of the largest integrated producers of dry cell battery jackets in Southeast Asia.

## Key financial indicators (audited)

	FY2023	FY2024
Operating income	245.1	240.4
PAT	6.0	6.5
OPBDIT/OI	9.4%	9.8%
PAT/OI	2.5%	2.7%
Total outside liabilities/Tangible net worth (times)	2.0	1.8
Total debt/OPBDIT (times)	3.0	2.7
Interest coverage (times)	2.3	2.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Oct 24, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	18.16	[ICRA]BB+ (Positive)	06-OCT-2023	[ICRA]BB+ (Stable)	29-SEP-2022	[ICRA]BB (Stable)	13-SEP-2021	[ICRA]BB- (Stable)
Long term-cash credit-fund based	Long Term	33.75	[ICRA]BB+ (Positive)	06-OCT-2023	[ICRA]BB+ (Stable)	29-SEP-2022	[ICRA]BB (Stable)	13-SEP-2021	[ICRA]BB- (Stable)
Short term-others-non fund based	Short Term	49.00	[ICRA]A4+	06-OCT-2023	[ICRA]A4+	29-SEP-2022	[ICRA]A4	13-SEP-2021	[ICRA]A4
Long term / short term-unallocated	Long Term/Short Term	0.00	-	06-OCT-2023	[ICRA]BB+ (Stable)/[ICRA]A4+	-	-	13-SEP-2021	[ICRA]BB- (Stable)/[ICRA]A4+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, Fund Based Term Loan	Simple
Long-term, Fund Based Cash Credit	Simple
Short-term, Non Fund Based Limits	Very Simple

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	33.75	[ICRA]BB+(Positive)
NA	Term Loan	FY2021	NA	FY2026	0.95	[ICRA]BB+(Positive)
NA	ECLGS	FY2021	NA	FY2026	1.02	[ICRA]BB+(Positive)
NA	Term Loan	FY2023	NA	FY2032	14.76	[ICRA]BB+(Positive)
NA	Term Loan	FY2023	NA	FY2028	1.43	[ICRA]BB+(Positive)
NA	Letter of Credit	NA	NA	NA	49.00	[ICRA]A4+

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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