September 29, 2022

Shetron Limited: Long-term rating upgraded to [ICRA]BB(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund Based Term Loan	8.65	4.23	[ICRA]BB(Stable); Rating upgraded from [ICRA]BB-(Stable)
Long-term, Fund Based Cash Credit	28.75	28.75	[ICRA]BB(Stable); Rating upgraded from [ICRA]BB-(Stable)
Short-term, Non Fund Based Limits	39.00	42.00	[ICRA]A4; Reaffirmed
Long-term/Short-term, Unallocated	0.10	0.00	-
Total	**76.50**	**74.98**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the rating of Shetron Limited (Shetron) considers its strong revenue growth of 32% in FY2022, supported by the addition of new end-user segments, which along with proposed capex in the current fiscal for food Can segment is expected to further support the top line, going forward. The margin also posted an improvement in FY2022 due to better absorption of fixed costs leading to improvement in coverage indicators over FY2021. The company has reported an operating margin of 9.92% on a top line of Rs. 227.11 crore in FY2022, compared to 7.77% on a top line of Rs. 171.60 crore in FY2021. The rating continues to derive comfort from the extensive experience of more than three decades of Shetron's promoters in the metal packaging and battery jackets manufacturing business, a reputed customer profile in the battery and food and beverages (F&B) segments, and established relationships with its domestic and overseas suppliers.

The ratings are, however, constrained by the high working capital intensive nature of business driven by high inventory holding leading to almost full utilisation of the working capital limits, thereby restricting its liquidity as well as overall financial profile. The ratings also consider the company's vulnerability to adverse fluctuations in foreign exchange (forex) rates and commoditised raw material prices, along with supplier concentration risks.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that Shetron will continue to benefit from the extensive experience of its promoters in the metal packaging and battery jackets market, as well as from its established customer profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the metal packaging and battery jackets manufacturing industry – Shetron's operations are managed by Mr. Diwakar Shetty, Mr. Kartik Nayak and Mr. Praveen Mally who have a 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, paint and chemical sectors – Shetron's customer base consists of reputed battery manufacturers, FMCGs and manufacturers of packaged foods and fruit processors. The company has also recently ventured into general metal packaging such as chemicals and paints. It has been present in the domestic as well as international markets, garnering repeat orders from its clients over the years.

Healthy top-line growth in FY2022; favourable revenue prospects for F&B tin cans market amid increasing demand from modernisation of consumer lifestyles and ban on plastics – The company's revenue grew by 32% YoY in FY2022 to Rs. 227 crore on account of increased demand from end-users and improved realisations from the rise in tin prices. There is also an increasing awareness on environmental issues and the 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, which offers favourable revenue prospects for Shetron. Further, the company has ventured into the general packaging business, which offers lesser seasonality than food packaging.

Credit challenges

Average financial risk profile – The overall financial risk profile of the company remains average. The operating margins (OPM) recovered partially in FY2022 to 9.92% from FY2022 from 7.77% in FY2021 (10.39% in FY2020) as the company absorbed fixed costs better on a higher top line. The total debt/OPBITDA was moderate at 2.89 times as on March 31, 2022, along with a modest interest coverage of 2.02 times in FY2022 that, however, improve over FY2021 levels due to better profitability and decline in long term debt.

Working capital intensive nature of operations – The working capital intensity (NWC/OI) of the company stood high at 28% in FY2022, due to high inventory holding levels. Raw material inventory remained high due to the lengthy end-to-end manufacturing cycle. This also led to high reliance on working capital borrowings. Moreover, Shetron's ability to manage the cash flows and debtors' recovery will be critical from a liquidity profile perspective.

High supplier concentration risk – Shetron procures its raw materials from domestic markets as well as from overseas markets such as Taiwan, China, Japan, Korea and Germany. The supplier base of the company has remained concentrated with a single supplier meeting ~35% and ~48% of its total requirements in FY2021 and FY2022, respectively.

Vulnerability of margins to forex rates and raw material price risks – Since tin plates form the primary raw materials for manufacturing battery jackets and cans, the company's profitability remains vulnerable to variations in tin prices. Moreover, with exports forming 32% and 23% of Shetron's revenues in FY2021 and FY2022, respectively, its exposes the company's profitability to fluctuations in forex rates. However, the risk is partially mitigated by natural hedge through imports, as Shetron imported 32% and 15% of its raw material requirements in FY2021 and FY2022, respectively.

Liquidity position: Stretched

Shetron's liquidity position remains stretched as the utilisation of its fund-based limits of Rs. 28.75 crore remained high at an average of 87.2% for the past 12 months ending July 2022. The company had cash and equivalents of Rs 0.35 crore as on March 31, 2022 and Rs. 5.75 crore as buffer in working capital limits as on March 31, 2022. The company is also undertaking Rs. 10-crore capex in FY2023, funded by a Rs. 5-crore term loan and the rest through internal accruals. Timely ramp up of the new capacity, aiding the cash accruals, will remain a key monitorable.

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.

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, weakening the overall liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of company.

About the company

Incorporated in 1984, Shetron Limited manufactures dry cell battery jackets and metal cans mainly for food and general packaging solutions. Shetron started out by manufacturing battery jackets, before gradually diversifying into manufacturing metal cans. The company was listed on the BSE in 1994 and has manufacturing plants at Bangalore (Karnataka) and Asangaon (Maharashtra). It currently has a manufacturing capacity of 13,833 MTPA and is also planning to add another 3,600 MTPA by January 2023.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	171.60	227.11
PAT	(1.97)	5.09
OPBDIT/OI	7.77%	9.92%
PAT/OI	(1.15%)	2.24%
Total outside liabilities/Tangible net worth (times)	2.69	2.42
Total debt/OPBDIT (times)	5.67	2.89
Interest coverage (times)	1.33	2.02

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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 29, 2022	Sep 13, 2021	Aug 04, 2020	-
1	**Fund Based Term Loan**	Long term	4.23	4.59	[ICRA]BB (Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-
2	**Fund Based Cash Credit**	Long term	28.75	-	[ICRA]BB (Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-
3	**Non Fund Based Limits**	short term	42.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	-
4	**Unallocated**	Long term and short term	0.00	-	-	[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: www.icra.in

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	11.75	[ICRA]BB(Stable)
NA	Cash Credit	NA	NA	NA	12.00	[ICRA]BB(Stable)
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BB(Stable)
NA	ECLGS 2.0	FY2021	NA	FY2026	2.08	[ICRA]BB(Stable)
NA	ECLGS 2.O	FY2021	NA	FY2026	2.15	[ICRA]BB(Stable)
NA	Letter of Credit	NA	NA	NA	17.00	[ICRA]A4
NA	Letter of Credit	NA	NA	NA	23.00	[ICRA]A4
NA	Letter of Credit	NA	NA	NA	2.00	[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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About ICRA Limited:

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