October 06, 2023

Shetron Limited: Ratings upgraded to [ICRA]BB+ (Stable)/[ICRA]A4+ 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	4.23	24.32	[ICRA]BB+(Stable); Rating upgraded from [ICRA]BB(Stable) and assigned to enhanced amount
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	42.00	42.00	[ICRA]A4+; Rating upgraded from [ICRA]A4
Long-term/Short-term, Unallocated	0.00	0.55	[ICRA]BB+(Stable)/ [ICRA]A4+; assigned
Total	**74.98**	**95.62**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of Shetron Limited (Shetron) considers the steady improvement in its credit profile as reflected in its improved debt protection metrics in FY2023, coupled with further improvement expected in near term driven by the anticipated returns from the capacity enhancement envisaged in the food can division, wherein the demand prospects remain favourable. Shetron's liquidity profile also witnessed an improvement, with the change in its sourcing strategy towards largely domestic players, leading to lower utilisation of non-fund based facilities, thereby freeing up cash margins. The rating continues to derive comfort from the extensive experience of Shetron's promoters of more than three decades in the metal packaging and battery jackets manufacturing business. The ratings also factor the company's reputed customer profile in the battery, and food and beverages (F&B) segments, and its established relationships with its domestic and overseas suppliers.

The ratings are, however, constrained by the vulnerability of margins to raw material price fluctuations and declining sales for the company's battery jackets segment due to limited demand, which is, however, 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 ratings also consider the company's vulnerability to adverse fluctuations in foreign exchange (forex) rates and 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 sector, 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 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, paint and chemical sectors – Shetron's customer base consists of reputed battery manufacturers, FMCG firms, 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.

Growth in scale of operations coupled with favourable market prospects for F&B tin cans amid increasing consumer demand and ban on plastics – The company's revenue grew by 8% YoY in FY2023 to Rs. 245.14 crore on account of improved realisations from the rise in tin prices, which along with the completed capex in the current fiscal for the food can segment is expected to further support the top line, going forward. The debt protection metrics also posted an improvement with TD/OPBIDTA moderating to 2.94 times in FY2023 compared to 2.89 times in FY2022 and interest coverage improving to 2.31 times in FY2023 from 2.02 times in FY2022. The debt protection metrics are further expected to improve in the near to medium term with closure of debt-funded capex in FY2023 and returns flowing in from FY2024. There is also an increasing consumer awareness on environmental concerns 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 offers 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

Average financial risk profile – The overall financial risk profile of the company remains average. The operating margins (OPM) marginally declined in FY2023 to 9.46% from 9.92% in FY2022 on account of lower margins in food can as compared to batteries. The scale of operations and debt protection metrics, however, have improved in FY2023 and continue to remain at moderate levels.

Working capital intensive nature of operations – The working capital intensity (NWC/OI) of the company stood high at 27% in FY2023, 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 as well as overseas markets such as Taiwan, China, Japan, South Korea and Germany. The supplier base of the company has remained concentrated with a single supplier meeting ~71% and ~58% of its total requirements in FY2022 and FY2023, 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 22% of Shetron's revenues in FY2022 and FY2023, respectively, its exposes the company's profitability to fluctuations in forex rates. However, the risk is partially mitigated by the natural hedge through imports, as Shetron imported 15% and 12% of its raw material requirements in FY2022 and FY2023, respectively.

Environmental and Social Risks

Environmental considerations: The company is exposed to tightening regulations on emissions standards, waste generation and its disposal, however the company takes efforts in making efficient use of natural resources, elimination of 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 results in the protection of raw materials and energy and reduction in CO2 emission which adds comfort to the tightening regulations.

Social considerations: The company is exposed to social risk of worker safety and wellbeing, however the company complies with all labour laws and takes all the necessary measures to maximize worker protection and safety. The company also considers taking care of health issues of employees inside the plant as well as outside as its top priority.

Liquidity position: Adequate

Shetron's liquidity position remains adequate since its free accruals are expected to be adequate to cover its repayments, which are in the range of Rs. 3.35–4.2 crore for the period FY2024–FY2027. The company has no debt funded capex plans in the near-to-medium term. The company had free cash and equivalents of Rs 2.33 crore as on March 31, 2023, and Rs. 2.22 crore as buffer in working capital limits as on March 31, 2023.

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, 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	Corporate Credit Rating Methodology
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 at Bangalore and Asangaon (Maharashtra). Shetron supplies metal packaging, printed metal sheets and dry cell battery jackets and components. The company is also the largest integrated producer of dry cell battery jackets in South East Asia.

Shetron started out by manufacturing battery covers, which was a high margin business, before gradually diversifying into manufacturing metal cans for food packaging during 1992–1994. The Asangaon plant manufactures battery cases, which are exported as well as sold to domestic players from western India, such as Panasonic and Eveready. The Bangalore plant manufactures battery cases, food cans and 20-litre cans, which is a newly developed product for chemical and paint companies.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	227.11	245.14
PAT	5.12	6.20
OPBDIT/OI	9.93%	9.46%
PAT/OI	2.25%	2.53%
Total outside liabilities/Tangible net worth (times)	2.42	1.98
Total debt/OPBDIT (times)	2.89	2.94
Interest coverage (times)	2.03	2.31

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 of March 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 06, 2023	Sep 29, 2022	Sep 13, 2021	Aug 04, 2020
1	**Fund Based Term Loan**	Long term	24.32	25.11	**[ICRA]BB+ (Stable)**	**[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)**	**[ICRA]BB-(Stable)**
3	**Non Fund Based Limits**	Short term	42.00	--	**[ICRA]A4+**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
4	**Unallocated**	Long term and short term	0.55	--	**[ICRA]BB+ (Stable)/ [ICRA]A4+**	-	**[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
Long term and short term - Unallocated	Not applicable

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	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	1.54	[ICRA]BB+(Stable)
NA	ECLGS 2.0	FY2021	NA	FY2026	1.61	[ICRA]BB+(Stable)
NA	Term Loan	FY2023	NA	FY2032	16.72	[ICRA]BB+(Stable)
NA	Term Loan	FY2023	NA	FY2028	4.45	[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+
NA	Unallocated	NA	NA	NA	0.55	[ICRA]BB+(Stable)/ [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

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Adish Shivaji Mali
+91 22 6114 3422
adish.mali@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches