

August 17, 2017

Sacheta Metals Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based Limits		
Demand Cash Credit (DCC)	1.00	[ICRA]BB (Stable); Reaffirmed
Export Packing Credit(EPC)/Packing Credit Foreign Currency (PCFC)	10.00	[ICRA]A4+; Reaffirmed
EBD (Export Bill Discounting)	(10.00)^	[ICRA]A4+; Reaffirmed
Non-fund Based Limits		
Letter of Credit (LC)/Buyers Credit (BC)	6.00	[ICRA]A4+; Reaffirmed
Forward Exchange Contract	0.20	[ICRA]A4+; Reaffirmed
Total	17.20	

^Sub-limit of PCFC. Full interchangeability between EPC and EBD facility.

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB (pronounced ICRA double B) to the Rs. 1.00 crore¹ fund-based limit of Sacheta Metals Limited (SML/the company)². The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs 10.00 crore³ fund-based limit and to the Rs 6.20 crore non-fund based limits of SML.

Rationale

The ratings reaffirmation continues to factor in the experience of the promoters in the aluminium industry. The product diversification through integrated operations from manufacturing of hot rolled (HR) coils to aluminium foils and utensils has aided in the top-line growth in FY2017. Further, the ratings also draw comfort from the moderate capital structure, attributable to the corresponding net-worth base.

The ratings, however, are constrained by the high working capital intensity of operations arising from elongated receivables, which has resulted in near to full utilisation of the working capital limits. The ratings continue to factor in the company's moderate scale of operations in a fragmented industry, which exposes it to pricing pressures, given the large organised and unorganised players in the field. Further, SML's margins are susceptible to the fluctuations in raw material prices as aluminium is a commoditised product, which has resulted in moderation of the operating profit margin in FY2017. Moreover, given the sizable share of exports in revenues (~60%), the company's margins are exposed to forex risks. Nevertheless, the company has a natural hedge for its forex exposure to the extent of its imports, and also actively hedges with multi commodity exchange (MCX) to mitigate the raw material price fluctuation risk.

Going forward, the company's ability to reduce its working capital requirements, particularly in the receivables cycle, which will result in improvement in liquidity, while improving the scale of operations and the profit metrics through the planned venture into manufacturing of steel utensils, will remain the

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications

³ Consists of EBD sub-limit of Rs. 10.00 crore, which is rated at [ICRA]A4+ on short-term scale

key rating sensitivities. Conversely, in case of lower-than-expected profitability, or a further stretch in the working capital cycle, resulting in deterioration in the financial risk profile, especially liquidity could have a negative impact on the key credit metrics.

Key rating drivers

Credit strengths

- **Extensive experience of the promoters in the metals processing industry** - The promoters have a longstanding experience of over two decades in the manufacturing of non-ferrous metals like aluminium utensils and house-ware products, aluminium sheets, coils and foils, which has been instrumental in building a diversified customer profile across countries and y-o-y addition of new clients.
- **Fully integrated operation due to in-house manufacturing of HR coils, foils and aluminium utensils instrumental in top-line growth** – The company's operations are fully integrated and SML manufactures all its products including HR coils, foils and aluminium utensils under one roof which has been instrumental in the increase in top-line from Rs. 50.15 crore in FY2016 to Rs. 60.49 crore in FY2017.
- **Comfortable capital structure as on March 31, 2017** - The company's capital structure remains comfortable as depicted by low gearing of 0.68 time as on March 31, 2017. This is mainly attributable to the company's relatively strong net-worth base.

Credit weaknesses

- **High working capital intensity of operations emanating from slow realisation of payments from customers** - As on March 31, 2017, debtors of Rs. 9.76 crore were overdue for more than six months, out of which debtors amounting to ~Rs. 6 crore were pending since FY2016. This resulted in SML's relatively strained liquidity position as evident from the near to full utilisation of fund-based working capital limits.
- **Fragmented industry structure characterised by intense competition; given its moderate scale of operations, the company has limited bargaining power with its customers** – SML's scale of operations have remained moderate due to a fluctuating demand scenario, which exposes it to pricing pressures, given the presence of large organised and unorganised players in the industry.
- **Margins susceptible to raw material price fluctuation risks as aluminium is a commoditised product; sharp decline seen in operating margin in FY2017** – The key raw material, aluminium, being a commoditised product, is exposed to the vagaries of price fluctuation risks. The company's margins are exposed to any unprecedented increase/decrease in the prices of aluminium. Over the past one year, the prices of aluminium have increased, resulting in a sharp decline in operating margin in FY2017.
- **Sensitivity to forex risks given the sizeable share of exports in overall revenues, mitigated to an extent by import of raw material** – The entire range of utensils is exported to countries situated in Africa and West Asia, with exports contributing around 60% to total revenues in FY2017, which exposes the company to foreign exchange fluctuation risks. However, this risk is mitigated to an extent by the natural hedge in the form of raw material imports (~60% of total raw material purchases in FY2017). At times the company also undertakes forward cover to hedge the same.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 1990 and promoted by Mr. Satish Shah, Sacheta Metals Limited (SML) is engaged in the manufacturing of aluminium sheets, coils, foils and aluminium utensils. The company's registered office and manufacturing unit are located at Talod in Gujarat, with a total installed production capacity of 5,400 MTPA of aluminium sheets and 1,800 MTPA of aluminium utensils.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	50.15	60.49
PAT (Rs. crore)	0.42	0.60
OPBDIT/ OI (%)	9.73%	4.28%
RoCE (%)	3.64%	3.96%
Total Debt/ TNW (times)	0.61	0.68
Total Debt/ OPBDIT (times)	3.47	7.32
Interest coverage (times)	5.47	2.94
NWC/ OI (%)	59%	51%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating history for last three years:
Table 2

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month - year & rating in FY2018	Month - year & rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	DCC	Long term	1.00	Aug 2017	-	Feb 2016	Oct 2015
				[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB+ (Stable)
2	EPC/PCFC	Short term	10.00^	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A4+
3	EBD	Short term	(10.00)^	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4	LC/BC	Short term	6.00	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A4+
5	Forward Exchange Contract	Short term	0.20	[ICRA]A4+ (Stable)	-	[ICRA]A4+ (Stable)	[ICRA]A4+ (Stable)

^Sub-limit of PCFC, full interchangeability between EPC and EBD facilities.

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Fund based – DCC	-	-	-	1.00	[ICRA]BB (Stable)
Fund based – EPC/PCFC	-	-	-	10.00 [^]	[ICRA]A4+
Fund based - EBD				(10.00) [^]	[ICRA]A4+
Non-fund based – LC/BC				6.00	[ICRA]A4+
Non fund based - Forward Exchange Contract				0.20	[ICRA]A4+

[^]Sub-limit of PCFC, full interchangeability between EPC and EBD facilities

Source: SML

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