

Sacheta Metals Limited

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	11.00	11.00	[ICRA]BB (Stable)/[ICRA]A4+; Reaffirmed, removed from Issuer not cooperating category
Non-fund based limits	6.20	6.20	[ICRA]A4+; reaffirmed, rating removed from issuer not cooperating category
Non-fund based interchangeable	(10.00)	(10.00)	[ICRA]A4+; reaffirmed, rating removed from issuer not cooperating category
Total	17.20	17.20	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to factor in the extensive experience of the promoters of Sacheta Metals Limited (SML) in the aluminium industry and the company's wide range of product including aluminium coils, foils and utensils. Further, the ratings draw comfort from the comfortable capital structure, attributable to a relatively higher 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 remain constrained by the stiff competition in a fragmented industry with a large number of organised and unorganised players, which limits the pricing flexibility. Further, SML's margins remain susceptible to fluctuations in raw material prices as aluminium is a commoditised product. 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 it also actively hedges with multi commodity exchange (MCX) to mitigate the raw material price fluctuation risk.

Outlook: Stable

Moderately diversified operations along with the established experience of the promoters will enable the company to achieve stable growth in the near-to-medium-term. The outlook may be revised upwards if the company is able to achieve robust growth along with increase in profitability and improvement in working capital intensity through improvement in the receivable cycle, which will strengthen its operational and financial profile. Conversely, the outlook may be revised downwards in case of significant decrease in operations and/or deterioration in profitability leading to lower than estimated cash accruals, or deterioration in capital structure through considerable increase in dependency on external borrowing or further stretch in the working capital cycle, resulting in deterioration in the financial risk profile.

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 houseware, aluminium sheets, coils and foils, which have been instrumental in building a diversified customer profile across countries with a YoY addition of new clients.

Fully integrated operation due to in-house manufacturing of aluminium coils, foils and aluminium utensils instrumental in top-line growth – The company’s operations are fully integrated. SML manufactures all its products including aluminium coils, foils and aluminium utensils under one roof, which has been instrumental in the increase in top line from Rs. 60.49 crore in FY2017 to Rs. 68.31 crore in FY2018. The company is further expected to diversify its operations by commencing manufacturing steel utensils from FY2020.

Comfortable capital structure as on March 31, 2018 - The company’s capital structure remains comfortable as depicted by low gearing of 0.81 time as on March 31, 2018. This is mainly attributable to the company’s relatively strong net worth base

Credit challenges

High working capital intensity of operations emanating from extended credits to customers – The working capital intensity of the company improved during FY2018. However, it continued to remain high as represented by NWC/OI of ~43.81% during FY2018, due to extended credits of ~4-5 months to its customers and higher inventory holding of ~2 months, against relatively a lower credits period of ~2-3 months from suppliers. Higher intensity also leads to almost full utilisation of working capital limits.

Stiff competition due to fragmented industry structure, which limits pricing flexibility – Fragmented industry structure along with a large number of organised and unorganised players from domestic and international markets lead to stiff competition in the business. The same restricts the pricing flexibility of the company.

Margins susceptible to raw material price fluctuation risks as aluminum is a commoditised product – Raw material consumption cost makes up almost 75% of the total manufacturing expense. Aluminum being a commoditised product, prices remain highly fluctuating, depending on demand and supply in the domestic and international markets. Due to stiff competition, the ability to pass on price fluctuations to customers remain limited, which affects SML’s margins.

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 in Africa and West Asia. Exports drove around 60% of total revenues during the last two years, exposing the company to foreign exchange fluctuation risks in the highly volatile currency market. However, this risk is mitigated to an extent by the natural hedge in the form of raw material imports, which is ~45% of the total raw material requirements of the company. At times SML also undertakes forward cover to hedge the same.

Liquidity position

The company did not have any term loans outstanding as on March 31, 2018. The moderate cash accruals generated through business operations remained adequate to service debt obligations of the company as indicated by moderate coverage indicators. Nevertheless, the liquidity position of the company remains moderate, given the high working capital intensity in operations due to extended credits to customers and near to full utilisation of working capital limits.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financial

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 at Talod in Gujarat, with a total installed production capacity of 5,400 MTPA of aluminium sheets and 1,800 MTPA of aluminium utensils.

The company has recorded a net profit of Rs. 1.86 crore on an operating income of Rs. 68.31 crore for the year ending on March 31, 2018. This is against a net profit of Rs. 0.60 crore on an operating income of Rs. 60.49 crore for the year ended March 31, 2017.

Key financial indicators

	FY2017 Audited	FY2018 Audited	9MFY2019* provisional
Operating Income (Rs. crore)	60.49	68.31	69.82
PAT (Rs. crore)	0.60	1.86	1.12
OPBDIT/ OI (%)	4.28%	5.46%	4.55%
RoCE (%)	3.96%	7.38%	5.34%
Total Debt/ TNW (times)	0.68	0.81	0.65
Total Debt/ OPBDIT (times)	7.32	6.44	4.73
Interest Coverage (times)	2.94	4.06	4.97
NWC/ OI (%)	51.19%	43.81%	NA

**based on a few estimated figures*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
Instrument	Type	(Rs. crore)	(Rs Crore)	April 2019	February 2019	August 2017	-	-
1	Demand Cash Credit	1.00		[ICRA]BB (Stable); Removed from Issuer not cooperating category	[ICRA]BB (Stable); ISSUER NOT COOPERATING	[ICRA]BB (Stable)	-	-
2	EPC/PCFC	10.00		[ICRA]A4+; Removed from Issuer not cooperating category	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+	-	-
3	EBD*	(10.00)		[ICRA]A4+; Removed from Issuer not cooperating category	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+	-	-
4	Letter of Credit	6.00		[ICRA]A4+; Removed from Issuer not cooperating category	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+	-	-
5	Forward exchange contract	0.20		[ICRA]A4+; Removed from Issuer not cooperating category	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+	-	-

*sub-limit of PCFC, fully interchangeability between EPC and EBD facility

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Demand Cash Credit	-	-	-	1.00	[ICRA]BB (Stable)
NA	EPC/PCFC	-	-	-	10.00	[ICRA]A4+
NA	EBD*	-	-	-	(10.00)	[ICRA]A4+
NA	Letter of credit	-	-	-	6.00	[ICRA]A4+
NA	Forward Exchange Contracts	-	-	-	0.20	[ICRA]A4+

**sub-limit of PCFC, fully interchangeability between EPC and EBD facility*

Source: Sacheta Metals Limited

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