Press Release

Purulia Metal Casting Private Limited

September 02, 2020

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	73.05 (enhanced from Rs.66.05 crore)	IVR BB+ / Positive (IVR Double B plus with Positive Outlook)	Reaffirmed
Total	**73.05**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Purulia Metal Casting Pvt Ltd (PMCPL) continues to derive comfort from its experienced promoters, strategic location of the plant, semi-integrated operations leading to operational efficiencies and continuous increase in scale of operations. These rating strengths however are tempered by its thin profit margins, increase in debt level affecting the total indebtedness, volatility in the prices of raw materials and finished goods, high competition and cyclicality in the steel industry and working capital intensive nature of its operations. The outlook is positive as the company's scale of operations and profitability are expected to improve on the back of enhanced capacity and backward integrations measures.

Rating Sensitivities

Upward Factors:

- Significant improvement in scale of operations and profitability leading to improvement in cash accruals on a sustained basis
- Significant improvement in capital structure with improvement in TOL/TNW to below 3x and debt protection metrics
- Improvement in the operating cycle and liquidity

Downward Factors:

- More than expected moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.
- Deterioration in capital structure and debt protection metrics
- Elongation in the operating cycle impacting the liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

  PMCPL was promoted by Mr. Bhabani Prasad Mukherjee in 2004, a first-generation entrepreneur and has an experience of over three decades in the steel industry, which includes more than 10 years of experience in billet/TMT manufacturing. Longstanding presence of the promoters in the industry has resulted in established relationship with its customers and suppliers. Currently, the day-to-day affairs of the company is being looked after by Mr. Bhabani Prasad Mukherjee and his son Dr. Anirban Mukherjee.

- **Strategic location**

  The manufacturing facility of PMCPL is strategically located in Purulia district of West Bengal which is in close proximity to various steel plants and various producers/dealers of its main raw materials. This results in easy availability of quality raw materials and savings in transportation costs

- **Continuous increase in scale of operations**

  Favourable demand scenario for steel products over the past three years resulted in higher capacity utilisation for PMCPL. The company has achieved a revenue CAGR of ~12% during FY18-FY20. The growth was driven by increase in sales volume with improvement in capacity utilisation of MS billets and TMT bars.

- **Semi - integrated operations leading to operational efficiencies**

  The company has semi-integrated operations with a mini Blast Furnace of 130 tons per day capacity along with Sinter Plant of 51000 MTPA capacity for producing Hot Metal (Liquid Pig Iron). Major portion of the hot metal being used as charge input for the induction furnaces and balance hot metal is casted and sold out. Apart from this, major portion of the billet manufactured by the company is captively consumed for conversion into TMT bars, and the balance is sold in open market.

Key Rating Weaknesses

- **Thin profit margins**

The profit margins of the company have generally been low. The EBITDA margins of the company has been in the range of 3.75%-5.1% during the last three years. The PAT margin was thin at 1.79% in FY20 (Prov.) (improved from 1.13% in FY19).

- **Increased debt level affecting the total indebtedness**

Total debt of the company has increased from Rs.60.40 crore as on March 31, 2019 to Rs. 72.73 crore as on March 31, 2020. Increased debt levels to support the business operations impacted the total indebtedness of the company as reflected by TOL/TNW at 4.31x as on March 31, 2020 (Prov.) deteriorating from 4.25x as on March 31, 2019.

- **Volatility in the prices of raw materials and finished goods**

The cost of raw materials (coal, coke, iron ore, silico-manganese, MS scrap) is the largest component of PMCPL's total cost of production (~80% in FY20). It does not have any captive source for its primary raw materials (i.e. iron ore). Accordingly, the entire requirement for raw materials is met from the open market on spot prices. Given that these raw material prices are volatile in nature, the same exposes the company to input price fluctuation risk. Additionally, the demand for steel products to a large extent is driven by international and domestic demand supply dynamics, resulting in volatility in the prices of finished goods. Further, the company does not have any captive source of power which is one of the major inputs for manufacturing steel products. Absence of any captive power source renders the operations of the company susceptible to any revision in power tariff.

- **High competition and cyclicality in the steel industry**

The company faces stiff competition from not only established players, but also from the unorganised sector. The steel industry is also cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. Any adverse fluctuations in the prices of finished products or any downturn in the steel sector may impact PMCPL adversely.

- **Working capital intensive nature of operations**

  PMCPL's operations are working capital intensive in nature. The company places purchase order for consumption of raw material in bulk at a time; thus, blocking major funds in inventory. This apart, the realization from its customers ranges between 60-90 days depending on the long term relationship with them. The company mostly funded its working capital requirements through bank borrowings which resulted in high utilisation of its working capital limits. The average utilisation of bank borrowings of the company remained high at ~98% during the past 12 months ended July, 2020. The company also manages its working capital requirements by availing higher credit period from its creditors.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The liquidity of the company is stretched, marked by its weak current ratio and highly utilized bank limits leaving limited cushion.

About the Company

Purulia Metal Casting Pvt Ltd (PMCPL), incorporated in September 2004, was promoted by Mr. Bhabani Prasad Mukherjee of Purulia, West Bengal. The company is primarily engaged in manufacturing of MS Billets, TMT bars (Marketed under the brand name "PMC Prestige"). The manufacturing facility of the company is located at Purulia, West Bengal. The present capacity for billets and TMT bars is 156000 MTPA and 120000 MTPA respectively.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	**31-03-2019**	**31-03-2020**
	Audited	**Provisional**
Total Operating Income	484.41	494.33
EBITDA	18.22	25.21
PAT	5.50	8.84
Total Debt	60.40	72.73
Tangible Net worth	62.63	69.30
EBITDA Margin (%)	3.76	5.10
PAT Margin (%)	1.13	1.79
Overall Gearing Ratio (x)	0.96	1.05

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	**Name of Instrument/ Facilities**	**Current Rating (Year 2020-21)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Long Term Fund Based Facilities-Term loan	Long Term	10.87	IVR BB+/ Positive Outlook	IVR BB+/ Positive Outlook (July 31, 2019)	IVR BB+/ Positive Outlook (March 12, 2019)	-
2.	Long Term Fund Based Facilities-Cash Credit	Long Term	45.00	IVR BB+/ Positive Outlook	IVR BB+/ Positive Outlook (July 31, 2019)	IVR BB+/ Positive Outlook (March 12, 2019)	-
3.	Long Term Non-Fund Based Facilities-Bank	Long Term	17.18	IVR BB+/ Positive Outlook	IVR BB+/ Positive Outlook (July 31,	-	-

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
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	Guarantee				2019)		

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits– Cash Credit	-	-	-	45.00	IVR BB+/ Positive Outlook
Long Term Fund Based Limits – Term Loan	-	-	June 2024	10.87	IVR BB+/ Positive Outlook
Long Term Non-Fund Based Limits–BG	-	-	-	17.18	IVR BB+/ Positive Outlook