Press Release

Purulia Metal Casting Pvt Ltd (PMCPL)

July 31, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	66.05 (enhanced from Rs.50.00 crore)	IVR BB+/Positive (IVR Double B Plus with Positive Outlook)	Reaffirmed
Short Term Bank Facilities	(6.00) (present o/s Nil)	IVR A4+ (IVR A4 Plus)	Withdrawn
Total	**66.05**		

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, continuous increase in scale of operations. The ratings however are tempered by its thin profit margins, increased 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 is expected to expand scale and improve margins. Growth in scale of operations, improvement in profitability & gearing level, global demand and supply of steel products and efficient working capital management are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

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 coupled with higher sales realisations for PMCPL. The company has achieved a revenue CAGR of ~26% during FY17-19 with a y-o-y growth of ~23% in FY19 (Prov).

Semi - integrated operations leading to operational efficiencies

In FY16, PMCPL implemented a backward integration cum expansion project involving installation of two 15MT induction furnaces, re-orientation of continuous casting machine and liquid metal carrying facility (resulting in substantial reduction in raw material costs). To improvise further, the company has set up a Mini Blast Furnace of 130 tons per day capacity along with Sinter Plant (under trial run presently) of 250 tons per day capacity for producing Hot Metal (Liquid Pig Iron). Major portion of the hot metal will be used as charge input for the induction furnaces and balance hot metal, if any, will be casted and sold. Pig iron is an essential raw material required in the manufacturing of Billets.

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 3.7%-4.9% during the last three years. The PAT margin was thin at 1.87% in FY19 (Prov.) (improved from 1.65% in FY18).

Increased debt level affecting the total indebtedness

Total debt of the company has increased from Rs.57.55 crore as on March 31, 2018 to Rs. 67.29 crore as on March 31, 2019. Increased debt levels to support the business operations impacted the total indebtedness of the company as reflected by TOL/TNW at 4x as on March 31, 2019 deteriorating from 3.34x as on March 31, 2018.

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 (~77% in FY19). 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 ~99% during the past 12 months ended May, 2019. 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

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 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 127,940 MTPA and 120,000 MTPA respectively.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	395.02	484.41
EBITDA	15.40	23.39
PAT	6.58	9.07
Total Debt	57.55	67.29
Tangible Net worth	56.69	65.75
EBITDA Margin (%)	3.90	4.83
PAT Margin (%)	1.65	1.87
Overall Gearing Ratio (x)	1.02	1.02

*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/Facil	Current Rating (Year 2019-20)	Rating History for the past 3 years

	ities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	35.00	IVR BB+/ Positive Outlook	IVR BB+/ Positive Outlook on March 12, 2019	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	13.87	IVR BB+/ Positive Outlook	IVR BB+/ Positive Outlook on March 12, 2019	-	-
3.	Long Term Non-Fund Based Limits – BG	Long Term	17.18	IVR BB+/ Positive Outlook	-	-	-

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	-	-	-	35.00	IVR BB+/ Positive Outlook
Long Term Fund Based Limits – Term Loan	-	-	June 2024	13.87	IVR BB+/ Positive Outlook
Long Term Non-Fund Based Limits–BG	-	-	-	17.18	IVR BB+/ Positive Outlook