Press Release

Purulia Metal Castings Pvt Ltd (PMCPL)

March 12, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities/Short Term Bank Facilities	50.00	IVR BB+/Positive/IVR A4+ (IVR Double B Plus with Positive Outlook / IVR A Four Plus)	Assigned
Total	**50.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from its experienced promoters, strategic location of the plant, substantial increase in scale of operation and profitability, financial profile marked by moderate gearing and debt protection metrics and integrated operations leading to operational efficiencies. The ratings however are tempered by its low profitability margins, volatility in the prices of raw materials and finished goods, highly competitive & fragmented nature of industry, cyclicality in the steel industry and working capital intensive nature of operation. The outlook is positive as the company is expected to expand scale and improve margins. Growth in scale of operations, profitability & gearing level, global demand and supply of steel products and working capital management are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

PMCPL is promoted by Mr. Bhabhani Prasad Mukherjee and Mr. Gautam Sen. Mr. Bhabhani Prasad Mukherjee has more than 37 years of experience in the Steel industry, which includes more than 10 years of experience in billet/TMT manufacturing. Mr.

Gautam Sen has more than 20 years of experience in the Steel industry. Currently, the day-to-day affairs of the company is being looked after by Mr. Bhabhani Prasad Mukherjee and his son Mr. Anirban Mukherjee, an MBBS.

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.

Substantial increase in scale of operation and profitability

The scale of operation of the company increased considerably from Rs.307 crore to Rs.395 crore in FY18, driven by increased demand. Subsequently, PAT increased from Rs.0.51 crore in FY17 to Rs.6.58 crore in FY18. The same is attributable to the benefits of backward integration cum expansion project involving installation of two 15 MT induction furnaces, re-orientation of continuous casting machine and liquid metal carrying facility (resulting in substantial reduction in raw material costs) implemented in FY16 coupled with healthy realisation of steel products in the FY18, in addition to profit on sale of old assets.

Financial risk profile marked by moderate gearing and debt protection metrics

PMCPL has a modest net worth of Rs. 56.69 crore as at March 31, 2018. Overall gearing remained moderate at 1.02 times as on March 31, 2018, deteriorated from 0.95 times as on March 31, 2017 on account of the new capex being undertaken. Interest coverage remained comfortable at 2.36x aided by healthy accruals. Long term debt equity ratio is comfortable at 0.38x as on March 31, 2018.

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 of 250 tons per day capacity (to commence operations from March 2019) 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

Low profitability margins; albeit improvement

The profitability margins of the company has generally been low. The EBITDA margin of the company has been in the range of 3.7%-3.8% (partly attributable to the trading sales) during the last 2 years. The PAT margin as on 31 March 2018 was 1.65% (improving from 0.17% in FY17).

Volatility in the prices of raw materials and finished goods

The price of steel has seen a lot of volatility over the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

Highly competitive & fragmented nature of industry

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants.

Cyclicality in the steel industry

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Working capital intensive nature of operation

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. While there has been improvements in the last two years in optimising Inventory and Receivable levels, the company also manages this by availing higher credit period from its creditors.

Analytical Approach & **Applicable Criteria:**

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The company's bank limits remained highly utilized for the twelve months through December 18, indicating limited liquidity cushion; however, the level of fund based limit is on the lower side given the scale of operation. Further, PMCPL is expected to generate modest accruals going forward against which it has sizeable repayment obligations. The accruals are expected to meet the repayment obligations in the medium run.

About the Company

Purulia Metal Casting Pvt Ltd (PMCPL), incorporated in September 2004, was promoted by Shri Goutam Kumar Sen and Shri Bhawani Prasad Mukherjee to set up a 21,600 MTPA Mild Steel (MS) Ingots plant at Purulia, West Bengal. The plant commenced commercial operation from February 2006. In May 2011, the company expanded its manufacturing capacity of MS Ingots to 46,800 MTPA. This apart, the company also commenced manufacturing of TMT bars with an installed capacity of 120,000 MTPA during the same period. The company further embarked on a backward integration cum expansion project in 2015-2016 and consequently the production capacity of MS Billets stood at 127,940 MTPA. The company sells TMT Bars under the brand name "PMC Prestige". PMCPL is a decade old business house with major presence in the state of West Bengal.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	307.01	395.02
EBITDA	11.56	15.06
PAT	0.51	6.58
Total Debt	46.35	57.55
Tangible Net worth	48.62	56.69
EBITDA Margin (%)	3.77	3.81
PAT Margin (%)	0.17	1.65
Overall Gearing Ratio (x)	0.95	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/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits - Cash Credit	Long Term	35.00	IVR BB+/ Positive Outlook	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	15.00	IVR BB+/ Positive Outlook	-	-	-
2A.	Term Loan Sub-	Short	6.00	IVR A4+	-	-	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
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	Limit-LC/LOC	Term					

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.

the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	TL II- to be repaid by second quarter of FY22 TL III-to be repaid by fourth quarter of FY24	15.00	IVR BB+/ Positive Outlook
Term Loan Sub-Limit-LC/LOC	-	-	-	6.00	IVRA4+