

Eefco Metals & Powders Private Limited

May 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	11.00 (Enhanced from 8.50)	CARE BB+; Stable	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in rating assigned to the long-term bank facilities of Eefco Metals and Powders Private Limited (EEFCO) takes into consideration the improvement in its financial performance during FY24 (provisional) marked by an increase in TOI to Rs 103.56 crore in FY24 as against Rs. 92.46 crores in FY23. However, the rating of the company continues to remain constrained by its relatively small scale of operations, volatility in raw material prices, moderate capital structure and debt coverage indicators and presence in a highly competitive, fragmented sector along with the cyclical nature of industry.

The aforementioned risks get partially offset by the extensive experience of promoters with long track record of operations, reputed clientele albeit client concentration risk and certified quality standards of manufacturing facilities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operation (turnover beyond Rs.175.00 crores) along with improvement in operating margin reaching beyond 10% on a sustained basis.
- Improvement in capital structure (overall gearing ratio below 1.00x) and its reduced reliance on external borrowing for funding its working capital requirement on a sustained basis.

Negative factors

- Sizable decline in scale of operation (turnover below Rs. 75.00 crores) on a sustained basis.
- Deterioration in capital structure (overall gearing ratio above 2.00x) and its increased reliance on external borrowing for funding its working capital requirement on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook denotes the ability of the company to sustain its TOI and profit margins while maintaining its capital structure going ahead.

Detailed description of the key rating drivers:

Key weaknesses

Highly competitive, fragmented, and cyclical industry

The operating spectrum of the company is highly fragmented and competitive, marked by the presence of numerous players in eastern India. Hence the players in the industry do not have pricing power and are exposed to competition induced pressures on profitability. This apart, EEFCO's product being intermediary iron & steel products, are used primarily by auto industry. Accordingly, it is subjected to the risks associated with the industry like cyclicity and price volatility.

Volatility in raw material prices

The degree of backward integration defines the ability of the company to minimize price volatility risk and withstand cyclical downturns. Since raw material (MS Scrap) is the major cost driver for EEFCO, any upward movement in raw material prices without any relative improvement in realization from finished goods may result in adverse performance of the company. Moreover, EEFCO does not have any backward integration for its raw materials and procures the same from outside, exposing the company to price volatility.

Small scale of operations albeit improvement in FY24

Though the TOI of the company improved by around 13% y-o-y, to Rs 103.56 crore in FY24 as against Rs. 92.46 crores in FY23, the overall scale of operations continued to remain small. The PBILTD margin also improved to 7.56% (P.Y. 3.36%) as the company was able to reduce the wastage during production by improving efficiency. Going forward, the company is expected to sustain its growth momentum and profitability margin in the near future.

Moderate capital structure and debt coverage indicators

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The overall gearing of the company stood at a moderate level as on March 31, 2024, at 1.94x as against 1.70x as on March 31, 2023. The moderation observed in the overall gearing was majorly attributable to EEFCO availing loan against fixed deposit during the end of FY24 to fund its working capital requirement. The TD/GCA ratio improved in FY24 to 4.84x (PY: 5.98x), whereas interest coverage ratio moderated to 4.38x against 6.24x last year.

Key strengths

Experienced promoters with long track record of operations:

EEFCO is managed by Mr. Anurag Kumar and Mr. Rajesh Kumar who have more than two decades of experience in this industry. EEFCO has been engaged in S.G. Iron and C.I. Casting business since 1996 and accordingly has more than two decades of operational track record.

Client concentration risk albeit reputed clientele

The revenue of the company is majorly derived by supply of automotive parts to Tata Motors Ltd. (TML) (CARE AA+; Stable/CARE A1+) and ancillaries of TML. Reliance on a few customers for its sales exposes the company to customer concentration risk. However, the company has long standing relationship with these clients for more than two decades, which offsets the risk to a large extent.

Certified quality standards of manufacturing facilities

EEFCO's manufacturing facility is well equipped with modern amenities which ensures it to maintain standard manufacturing and product quality which has been reflected from the IATF 16949:2016 certification that it has received from the certification body 'BSI'. These international certifications help the company with the wide acceptability of its products.

Liquidity: Adequate

Liquidity is marked by sufficient cushion in accruals vis-a-vis modest cash balance and moderate bank limit utilisation. During FY24, the company has generated a GCA of RS 4.87 crore against debt repayment obligation of Rs 1.90 crore. Going ahead, the company is expected to maintain sufficient GCA to maintain its debt servicing obligation. The average utilization of working capital limit has been around 32% for the last 12 period ending April 2024. The total cash and bank balance stood at Rs. 14.98 crore as on 31 March 2024.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Iron & Steel](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Eefco Metals & Powders Private Ltd. (EEFCO) was incorporated on December 06, 1996 by Mr G.S. Rao of Jamshedpur, Jharkhand and his two sons: Mr Anurag Kumar and Mr Rajesh Kumar to take over their existing business 'Eastern Engineering & Foundry Company'. Since its inception, the company has been engaged in Spheroidal Graphite (S.G.) iron casting which finds major application in automobile industry. The manufacturing facility of EEFCO is located at Jamshedpur, Jharkhand with an aggregate installed capacity of 9600 metric tons per annum. The company mainly works for Tata Motors Ltd and its ancillaries.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	92.56	103.56
PBILDT	3.11	7.83
PAT	1.12	3.07
Overall gearing (times)	1.60	1.94
Interest coverage (times)	6.24	4.38

A: Audited ; UA: Unaudited ; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	11.00	CARE BB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Jul-21)
2	Fund-based - LT-Cash Credit	LT	11.00	CARE BB+; Stable	-	1)CARE BB; Stable (05-Jul-23)	1)CARE BB; Stable (29-Jun-22)	1)CARE BB; Stable (02-Jul-21)

LT: Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities : Not Applicable.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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