

Eefco Metals & Powders Private Limited

June 29, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	8.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	8.00 (₹ Eight Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the long-term bank facilities of Eefco Metals & Powders Private Limited (Eefco) continues to remain constrained by its relatively small scale of operations with low profitability margins, volatility in raw material prices and presence in a highly competitive, fragmented, and cyclical industry. However, the rating continues to drive strength from the extensive experience promoters with long track record of operations, satisfactory manufacturing facility with certified quality standards, reputed clientele albeit client concentration risk and moderate capital structure with satisfactory debt coverage indicators.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operation (turnover beyond Rs.75 crore) 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 – Factors that could lead to negative rating action/downgrade:

- Sizable decline in scale of operation (turnover below Rs.25 crore) on a sustained basis.
- Deterioration in capital structure (overall gearing ratio above 2.50x) and its increased reliance on external borrowing for funding its working capital requirement on a sustained basis.

Detailed description of the key rating drivers

Key rating 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 cyclical 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 (scrap iron, paint and lubricant) is the major cost driver for Eefco, any downward movement of finished goods price with no decline in raw material price 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.

Relatively small scale of operations with low profitability margins: The total operating income of the company has increased by ~87% y-o-y to Rs. 68.55 crore in FY22 as against Rs.36.54 crore in FY21. However, the overall scale of operation continued to remain small. The tangible net worth has increased to Rs.7.66 crore as on March 31, 2022, as against Rs. 7.24 crore as on March 31, 2021. The profit margins have reduced largely due to the increase in input cost. The operating margin has declined to 2.61% (6.18% in FY21) while the PAT margin has come down to 0.59% (1.29% in FY21).

Client concentration risk albeit reputed clientele: The revenue of the company is primarily derived by supply of automotive parts to Tata Motors Ltd. (rated CARE AA-; Stable/A1+), ancillaries of Tata Motors Limited and Omax Auto Ltd., accounting for over 70% of the total operating income in FY22 respectively. Hence, reliance on few customers for substantial portion of 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 some extent.

Key rating strengths

Experienced promoters with long track record of operations: Eefco is managed by Mr. Anurag Kumar and Mr. Rajesh Kumar who are having 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.

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

Satisfactory manufacturing facility with certified quality standards: 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 ISO 9001:2008/TS 16949:2009 certifications that it has received from the certification body 'IQNet' and Quality Austria. These international certifications help the company in wide acceptability of its products.

Moderate capital structure and satisfactory debt coverage indicators: The overall gearing ratio for FY22 is 1.27x (1.04x in FY21) which has deteriorated marginally mainly due to increase in total debt. The debt coverage indicators remained moderate marked by interest coverage ratio of 6.47x (3.65x in FY21) and total debt to GCA of 6.97x in FY22 (4.53x in FY21). Improvement in interest coverage was due to decrease in the total interest paid during the year. Further, the total debt to GCA has deteriorated in FY22 due to increase in total debt.

Liquidity: Adequate

Liquidity is marked by sufficient cushion in accruals vis-a-vis modest cash balance, modest bank limit utilisation and satisfactory operating cycle. The average utilization of working capital limit was ~35% in FY22. The total free cash and bank balance stood at Rs. 11.56 crore as on March 31, 2022.

Analytical approach:

Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Steel](#)

About the company

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 (~80% capacity utilization) metric tons per annum. The company mainly works for Tata Motors Ltd and its ancillaries.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)
Total operating income	36.54	68.56
PBILDT	2.26	1.79
PAT	0.47	0.40
Overall gearing (times)	1.04	1.27
Interest coverage (times)	3.65	6.47

A: Audited

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 for this company: Annexure 4

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		-	-	-	8.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (02-Jul-21)	1)CARE BB; Negative (26-Jun-20)	1)CARE BB; Stable (31-May-19)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BB; Stable	-	1)CARE BB; Stable (02-Jul-21)	1)CARE BB; Negative (26-Jun-20)	1)CARE BB; Stable (31-May-19)

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

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

Note on 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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