Sapna Metal Processing Company

September 20, 2018

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	8.99 (Enhanced from 5.55)	**CARE BB-; Stable (Double B minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	1.25	**CARE A4 (A Four)**	**Reaffirmed**
Total	**10.24 (Rupees Ten Crore and Twenty Four Lakh only)**		

Details of instruments/facilities in Annexure -1

Detailed rationale

The ratings assigned to the bank facilities of Sapna Metal Processing Company (SMPC) continue to remain constrained on account of its constitution as a partnership firm along with presence in highly competitive and fragmented industry and susceptibility of profitability to volatile raw material prices. The ratings also factor in moderate liquidity with working capital intensive nature of business operations.

The ratings, however, continue to derive comfort from experienced partners, established customer base and locational advantage with presence in the foundry cluster of Rajkot. Further, the ratings also factor in stabilization of operations with moderate profitability, moderate capital structure and moderate debt coverage indicators.

The ability of SMPC to increase its scale of operations with improvement in profit margin, solvency, debt protection metrics along with efficient working capital management are the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Weaknesses

Moderate liquidity with working capital intensive nature of business operations: As on March 31, 2018 liquidity position stood moderate marked by current ratio of 1.08x. Further, the operation remains working capital intensive marked by high average utilization of working capital limits at 90% during the past 12 months ended August, 2018.

Constitution as a Partnership firm: The constitution as a partnership firm restricts SMPC's overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of withdrawal of capital and dissolution of the firm in case of death/insolvency of any of the partners.

Susceptibility of margins to volatility in raw material prices along with presence into competitive and fragmented industry: Profit margin of SMPC remain susceptible to changes in the prices of its primary raw material i.e. stainless steel scrap and pig iron. Further, high proportion of small scale units operating in the foundry industry has resulted in fragmentation and intense competition within the players; thereby limiting their pricing flexibility.

Key Rating Strengths

Stabilization of operations with moderate profitability: SMPC successfully completed its green field project within stipulated time and cost parameters and commenced its commercial operations from June 2017; with FY18 being the first year of operations. During FY18 (A), SMPC registered a Total Operating Income (TOI) of Rs. 23.44 crore with moderate profitability; marked by PBILDT margin of 14.24% and PAT Margin of 4.25% during the year.

Moderate capital structure and debt coverage indicators: On the back of moderate net worth base, capital structure of SMPC stood moderate marked by overall gearing ratio stood at 1.12x as on March 31, 2018. Further, during FY18, debt coverage indicators also stood moderate, marked by an PBILDT interest coverage ratio and Total Debt to GCA ratio of 4.60x and 2.35x, respectively.

Experienced partners coupled with locational advantage due to presence in the foundry cluster: Partners of SMPC hold more than a decade of experience into similar line of operations. Further, manufacturing facilities of SMPC are located at Metoda, Rajkot in Gujarat. There are about 500 foundry units at Rajkot which gives the firm advantage of easy access of raw material and labour. The cluster came up mainly to cater to the casting requirements of the local diesel engine industry. A relatively small percentage (about 10%) of the foundry units exports castings such as electric motor castings, etc. Apart from oil engines, the foundry units at Rajkot cluster cater to a number of other end-use applications.

Established Customer Supplier Base: The partners of SMPC have long experience in metal casting business through their association with two other associate entities. These entities are mainly engaged into manufacturing of heavy graded cast iron products and job work. Hence, the customers already associated from all over India along with export destinations like, Japan, Germany, Italy, USA, Taiwan, etc. has form a strong customer portfolio for SMPC.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies

About the firm
Metoda, Rajkot; Gujart-based , SMPC was established in February 2016 as a partnership firm by Mr. S D Jhala, Mr. Sanjay Soni, Mr. Kiransinh Jadeja and Mr. Bhupendrasinh Jadeja. In April 2018, Mr. Bhupendrasinh Jadeja retired from the firm and Mr. Brijrajsinh Jhala, son of Mr. S D Jhala, and Mr. Gajrajsinh Jadeja, son of Mr. Kiransinh Jadeja, have joined as new partners.
SMPC has set up a green field plant in Metoda for manufacturing of heavy graded gray, alloy and S G (Spheroidal Graphite) Iron Casting with the latest technology for the casting production; with an installed capacity of 12,000 MTPA as on March 31, 2018. The firm started its commercial operations from June 2017. The partners of the firm have long experience in foundry industry through their association with two other associate entities i.e. Parv Metal Processing Co. and Bhumi Metal Processing Co. Both the firms are mainly engaged into manufacturing of heavy graded cast iron products and job work.

Brief Financials (Rs. crore)	FY18 (A)*
Total operating income	23.44
PBILDT	3.34
PAT	1.00
Overall gearing (times)	1.12
Interest coverage (times)	4.60

A: Audited; commenced operations from June 2017

Till September 13, 2018(Prov.) in the current financial year, SMPC has registered a turnover of Rs.20 Crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June, 2023	2.99	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.25	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2.99	CARE BB-; Stable	-	1)CARE BB-; Stable (30-Oct-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE BB-; Stable	-	1)CARE BB-; Stable (30-Oct-17)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A4	-	1)CARE A4 (30-Oct-17)	-	-

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