Sapna Metal Processing Company

September 23, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB-; Stable (Double B Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4; (A Four) and Withdrawn
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has reviewed the rating assigned to the bank facilities of Sapna Metal Processing Company (SMPC) to 'CARE BB-; Stable /CARE A4' (Double B Minus; Outlook: Stable / A Four) and has simultaneously withdrawn it, with immediate effect. The rating assigned to SMPC are constrained on account of decline in scale of operations, moderate capital structure and debt coverage indicators during FY20 (refers to the period April 1 to March 31). The rating also remains constrain on account of its partnership nature of constitution, its susceptibility of margins to volatility in raw material prices along with presence into competitive and fragmented foundry industry.

The rating, however, continues to derive benefit from the experienced partners, established customer base and presence in foundry cluster Rajkot.

The rating withdrawal is at the request of SMPC and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in scale of operations

Total Operating Income (TOI) of SMPC has declined by 49.33% and remained at Rs. 25.58 crore during FY20 (Prov.) as against Rs. 50.49 crore during FY19. GCA remained largely in in line with that of FY19 at Rs.1.56 crore in FY20.

Moderate capital structure and debt coverage indicators

Capital structure remained moderate marked by overall gearing ratio of 1.28x as on March 31, 2020 (Prov.). (1.24x as on March 31, 2019) the marginal decline was due to higher working capital utilization. Debt coverage indicators remained moderate marked by Total debt to GCA ratio and interest coverage ratio of 5.63 years and 2.55 times respectively during FY20 (Prov.) (5.42 years and 2.51 times respectively during FY19). As per banker interaction, SMPC has not availed moratorium benefit for its bank facilities.

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 margins of SMPC remain susceptible to changes in its primary raw material i.e. stainless steel scrap and pig iron, the prices of the same are volatile in nature. Further, high proportion of small scale units operating in the foundry industry has resulted in the fragmented nature of the industry as well as intense competition within the players thereby limiting pricing flexibility.

Key Rating Strengths

Experienced partners coupled with presence into 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. 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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Established Customer Supplier Base

The partners of SMPC have long experience in metal casting business through their association with their other companies. These entities are mainly engaged into manufacturing of heavy graded cast iron products and job work. Hence, they have established customer base located all over India along with export destinations like, Japan, Germany, Italy, USA, Taiwan, etc.

Analytical approach: Standalone

Applicable Criteria

Policy on Withdrawal of ratings
Criteria on assigning Outlook to Credit Rating
Rating Methodologies-Manufacturing Companies
CARE's default recognition policy
Financial Ratios-Non Financial Sector

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, 2019. 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 of SMPC are tabulated below:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	50.49	25.58
PBILDT	2.70	2.86
PAT	0.43	0.40
Overall gearing (times)	1.24	1.28
Interest coverage (times)	2.51	2.55

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB-; Stable (09-Oct-19)	1)CARE BB-; Stable (20-Sep-18)	1)CARE BB-; Stable (30-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB-; Stable (09-Oct-19)	1)CARE BB-; Stable (20-Sep-18)	1)CARE BB-; Stable (30-Oct-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)CARE A4 (09-Oct-19)	1)CARE A4 (20-Sep-18)	1)CARE A4 (30-Oct-17)

Annexure 3: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple

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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