Sapna Metal Processing Company

October 09, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	8.42 (Reduced from 8.99)	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	1.25	**CARE A4 (A Four)**	**Reaffirmed**
Total	**9.67 (Rupees Nine Crore and Sixty Seven 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 foundry industry and susceptibility of profitability to raw material prices. The rating also factor in decline in profitability with deterioration in debt coverage indicators in FY19 (Audited, refers to period April 01 to March 31); along with stretched liquidity.

The ratings, however, continue to derive comfort from experienced partners, established customer base and presence in foundry cluster Rajkot. Further, the rating also factor in its increase in scale of operations, moderate capital structure.

The ability of SMPC to increase its scale of operations with overall improvement in financial risk profile will be the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Weaknesses

Decline in profitability with deterioration in debt coverage indicators in FY19

SMPC is engaged in manufacturing of heavy graded gray, alloy and S G Iron Casting with the latest technology for the casting production.

The profitability of SMPC declined over previous year as marked by decline in PBILDT margin and PAT Margin. PBILDT margin declined by 890 bps over previous year owing to increase in material consumption cost during the year and remained moderate at 5.34% in FY19. Further as a consequence of decline in operating profitability with increase in interest cost as a result of increase in working capital borrowings to fund increase in scale of operations, PAT margin also declined by 339 bps over previous year and remained low at 0.86% in FY19. Consequently, gross cash accruals also decreased over previous year and remained low at Rs.1.62 crore in FY19 as against Rs. 2.61 crore in 10MFY18 (refers to period June 2017 to March 2018).

Further, as a result of decrease in profitability with increase in total debt pertains to working capital borrowings as well as interest cost, the debt coverage indicators also deteriorated and remained moderate as marked by an interest coverage ratio of 2.51 times during FY19 as against 4.60 times during 10MFY18 and total debt to GCA ratio of 5.42 years during FY19 as against 2.82 years during 10MFY18.

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

Increase in scale of operation in FY19

On the back of stabilization of operations, the scale of operations have grown over previous year and remained moderate marked by total operating income (TOI) of Rs.50.49 crore during FY19 as against Rs. 23.44 crore during 10MFY18.

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

Moderate capital structure
As on March 31, 2019, capital structure deteriorated marginally mainly due to increase in working capital limit utilization; but remained moderate as reflected by overall gearing ratio of 1.24x as against 1.12x as on March 31, 2018.

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.

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.

Liquidity Analysis
Stretched Liquidity
Liquidity was stretched marked by low cash flow from operating activities during FY19 at Rs.0.58 crore as against Rs. 0.36 crore during 10MFY18.Cash accruals remained adequate at Rs.1.62 crore in FY19 as against its principle debt repayment obligation of Rs.0.66 crore for FY20. However, as on March 31, 2019, cash and bank balance was low at Rs.0.03 crore and average working capital utilization remained high at 88% for past 12 months ended August 2019.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning outlook to credit ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
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 (Rs. crore)	FY18 (A)*	FY 19 (A)
Total operating income	23.44	50.49
PBILDT	3.34	2.70
PAT	1.00	0.44
Overall gearing (times)	1.12	1.24
Interest coverage (times)	4.60	2.51

**Commenced operation from June 2017 onwards; A: Audited*
Till September 28, 2019 in current year (Prov.), SMPC has registered the turnover of Rs.19 Crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	-	-	June, 2023	2.42	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2.42	CARE BB-; Stable	-	1)CARE BB-; Stable (20-Sep-18)	1)CARE BB-; Stable (30-Oct-17)	-
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE BB-; Stable	-	1)CARE BB-; Stable (20-Sep-18)	1)CARE BB-; Stable (30-Oct-17)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A4	-	1)CARE A4 (20-Sep-18)	1)CARE A4 (30-Oct-17)	-

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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