Sapna Metal Processing Company
October 30, 2017

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	5.55	CARE BB-; Stable (Double B Minus; Outlook: Stable)	**Assigned**
Short-term Bank Facilities	1.25	CARE A4 (A Four)	**Assigned**
Total	**6.80 (Rupees Six Crore and Eighty Lakh only)**		

Details of instruments/facilities in Annexure -1

Detailed rationale

The ratings assigned to the bank facilities of Sapna Metal Processing Company (SMPC) are constrained on account of its nascent stage of operations coupled with constitution as a partnership firm. The ratings are also constrained due to presence in highly competitive and fragmented industry and susceptibility of profitability to raw material prices.

The ratings, however, derives strength from experienced partners, established customer- supplier base along with having presence in foundry cluster Rajkot.

The ability of SMPC to achieve envisaged scale of operations and profitability while maintaining moderate capital structure would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Nascent Stage of Operations

SMPC has started its commercial operations from June 2017 hence FY18 will be the first year of operations. During 4MFY18 (Prov.), SMPC has registered total operating income of Rs. 6.07 crore along with healthy operating margin of 16.69%.

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 along with inherent risk of possibility 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 and fuel prices along with presence into competitive and fragmented industry

Profit margins of SMPC will remain susceptible to changes in 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 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.

Established Customer Supplier Base

The partners of SMPC have long experience in metal casting business through their association with two other group companies named Parv Metal Processing Company and Bhumi Metal Processing Company. 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. will form a strong customer portfolio.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Rating Methodology-Manufacturing Companies

Criteria for Short Term Instruments

About the Firm

Metoda (Rajkot)-based (Gujarat), SMPC was incorporated in February, 2016 as a partnership firm by Mr. S D Jhala, Mr. Sanjay Soni, Mr. Kiransinh Jadeja and Mr. Bhupendrasinh Jadeja. SMPC has set up a new plant in Metoda (Rajkot) for manufacturing of heavy graded gray, alloy and S G Iron Casting with the latest technology for the casting production with the installed capacity of 12,000 MTPA as on March 31, 2017. The firm has completed its project and started its commercial operations from June 2017. The partners of the firm have long experience in foundry industry through their association with two other group 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. After establishing their long standing presence in foundry industry, promoters decided to start a new entity for manufacturing of Heavy Graded Gray/Alloy and S G iron casting in the form of SMPC.

SMPC has registered total operating income of Rs.6.07 Crore during 4MFY18 (Prov.) coupled with healthy operating margin of 16.69%.

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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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	3.55	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	2.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	3.55	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A4	-	-	-	-

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