

Sohan Coppertech Private Limited

November 27, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	8.50	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	2.00	CARE A4 (A Four)	Reaffirmed
Total facilities	10.50 (Rupees Ten crores and Fifty Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key rating drivers

The ratings assigned to the bank facilities of Sohan Coppertech Private Limited (SCPL) continues to remain constrained by its modest scale of operations, moderate profitability margins which are further vulnerable to volatile input prices and stretched liquidity position. The ratings are further constrained by leveraged capital structure, moderate debt coverage indicators and presence of company in highly fragmented and competitive industry.

The ratings however, continue to derive strength from the long operational track record of the company, extensive experience of the promoters and its association with reputed clientele.

Rating Sensitivities

Positive factors

- Improvement in scale of operations and profitability margins on sustained basis
- Ability of company to pass on increased raw material costs to its customers ,on the back drop of intensifying competition in the industry

Negative factors

- Deterioration in liquidity position of company from inventory pile up or delay in debtors realization
- Deterioration in overall gearing beyond 3x led by increased debt levels
- Deterioration in PBILDT and PAT margins below 4.5% and 1%, respectively

Detailed description of key rating drivers

Key Rating Weaknesses

Modest scale of operations with moderate profit margins: The scale of operations of SCPL as reflected by total operating income (TOI) improved by y-o-y growth rate of ~16% and stood at Rs. 33 crore in FY19 and total capital employed stood low at Rs.17.49 crore as on March 31, 2019. The modest scale of operations restricts the financial flexibility of the company in times of stress and deprives it of scale benefits. Moreover, the company has achieved a turnover of Rs.18 crore (approx.) during 7MFY20 ending on October 31, 2019. The PBILDT margin of SCPL has shown a volatile trend, however it continues to remain moderate in the range of 5% -8% during last three years ended FY19. Consequently, the PAT margin of the company stood low in range of 1%-3% for last three years ended FY19.

Leveraged capital structure and moderate debt service coverage indicators: The capital structure of SCPL improved as against previous year on account of reduced debt and accretion of profits to reserves, but it continued to remain leveraged as marked by an overall gearing of 2.24x as on March 31, 2019 (PY:2.47x as on March 31, 2018) . Further, owing to leveraged capital structure and lower cash accruals, the debt service coverage indicators of SCPL continued to remain moderate.

Susceptibility of profitability margins to volatile copper prices: The major raw materials used in manufacturing the products by SCPL are copper cathodes, price of which are generally volatile in nature and governed by prevailing market sentiments. The same has rendered profitability margins vulnerable to change in the raw material prices.

Presence of the company in highly fragmented and competitive industry: SCPL operates in a fragmented and unorganized market for copper products with presence of large number of small sized players as the industry is characterized by low entry barriers. Also, the presence of large players with established marketing and distribution network results in intense competition in the industry.

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

Liquidity Indicators: Stretched: The liquidity position of SCPL is stretched, characterized by modest accruals, almost fully utilized bank limits for past 12 months ended October 31, 2019 and modest cash balance of Rs.0.09 crore as on March 31, 2019. The operations of the company are further characterized by gross current asset days of 149 days in FY19 majorly on account of funds blocked in receivables.

Key Rating Strengths

Established presence with technically experienced promoters: SCPL is promoted by Mr. Rohan Chakkarwar (Managing Director) and Mr. Deelip Chakkarwar (Director). The long standing average industry experience of more than three decades has helped the directors to gain adequate acumen about the business and maintain strong relationship with the customers and suppliers. The promoters are also engaged in managing other group entities, Sohan Healthcare Private Limited and Shrinivasa Cattle Feeds Private Limited, which are engaged in manufacturing of pharmaceutical products and extraction of edible and non-edible oils, respectively, since 1993.

Reputed clientele: SCPL's major customers include Crompton Greaves Limited, Siemens Limited, CTR Manufacturing Industries Limited, Toshiba India, Larsen & Toubro Limited and others. SCPL has long-standing relationship with these players, who possess respectable position in their respective industries. The company has hence, been able to get repeat orders from these clients.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria on Short Term instruments](#)

[Financial ratios \(Non-Financial Sector\)](#)

About the Company

SCPL was incorporated in 2009 and is based out of Nanded (Maharashtra). The company is a part of the Sohan Group of companies, which has business interests spanning healthcare, poultry and copper. SCPL is engaged in manufacturing of copper products at its manufacturing facility located at Nanded (Maharashtra), having an installed capacity of 2,000 Metric Tonnes Per Annum (MTPA).

Brief Financials (Rs. crore)	FY18	FY19
	12M, Audited	12M, Audited
Total operating income	28.43	33.00
PBILDT	1.87	1.83
PAT	0.62	0.51
Overall gearing (times)	2.47	2.24
Interest coverage (times)	2.20	2.05

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-Cash Credit	-	-	-	8.50	CARE BB; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	2.00	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-Cash Credit	LT	8.50	CARE BB; Stable	-	1)CARE BB; Stable (07-Feb-19) 2)CARE BB; Stable (24-Jul-18)	1)CARE BB; Stable (25-Jan-18)	1)CARE BB; Stable (17-Jan-17)
2.	Non-fund-based - ST-IILC/FLC	ST	2.00	CARE A4	-	1)CARE A4 (07-Feb-19) 2)CARE A4 (24-Jul-18)	-	-

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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