Unison Metals Limited

October 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	24.81 (enhanced from Rs. 20.50 crore	**CARE BB; Stable (Double B; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	2.00	**CARE A4 (A Four)**	Assigned
Total Facilities	**26.81 (Rupees Twenty Six Crore and Eighty One lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Unison Metals Limited (UML), CARE has taken a consolidated view of UML and its wholly owned subsidiary Chandanpani Private Limited (CPL). Previously, CARE had considered a combined view of three entities of Unison Group namely UML, Universal Metal Co. Ltd. (UMCL) and Unison Forging Ltd. (UFL) due to their operational and managerial linkages. However, UFL's operations were shut down in FY18 (FY refers to the period from April 1 to March 31) and in June 2019, UMCL was merged with CPL. Hence, a consolidated view of UML and CPL has been considered for analysis, referred to as Unison Group (UG).

The ratings assigned to the bank facilities of UML continue to remain constrained on account of UG's modest scale of operations, its moderate operating profit margin which is susceptible to fluctuation in raw material prices as well as moderate overall gearing, modest debt coverage indicators, stretched liquidity and its presence in a highly fragmented and cyclical steel industry.

The rating for UML's bank facilities, however, continues to derive strength from vast experience of UG's promoters and its well-established presence in the steel industry.

UG's ability to increase its scale of operations along with improving its profitability as well as capital structure and prudent management of its working capital requirements would be the key rating sensitivities for UML's ratings.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations and moderate operating margin: UG (UML, on a consolidated basis), had a modest scale of operations marked by TOI of Rs.149.28 crore during FY19. In FY19, UG discontinued the manufacturing of utensils (cookware and tableware range produced in UML) to focus on its primary products i.e., hot rolled and cold rolled sheets. Furthermore, UG's operating profit margin was also moderate at 5.23% during FY19 along with a thin PAT margin of 0.08% on the back of high interest cost resulting in thin cash accruals for UG. Further, during Q1FY20, UG reported a TOI of Rs.39.79 crore with a PBILDT margin of 2.06%. UG's operating profit margin declined in Q1FY20 on account of sluggish demand from end-user industry as well as penalty of around Rs.0.67 crore towards lower than minimum off-take of gas during the period (for which a provision has been made, but payment would be dependent upon off-take during the entire financial year). This decline in operating profit margin resulted in net loss of Rs.0.80 crore during Q1FY20. Furthermore, in May 2019, UG sold off its investment of Rs.5.43 crore in Vietnam based Mangalam Steel and Alloys Ltd. (MSAL) at a profit of Rs.1.47 crore to enhance its liquidity and divest non-core investments. Also, during FY20, UG has plans to sell off its investment of Rs.1.77 crore in a Kuwait based Al Seeb Engineering Co. which has been routed through Chandanpani Enterprise.

Susceptibility of operating profit margin to fluctuation in raw material prices: Due to limited value addition and presence in a highly fragmented & competitive industry, UG's operating profit margin remains susceptible to fluctuations in raw material prices. This is negated to a certain extent by integration of UG's operations, as the stainless steel ingots manufactured by CPL are used as a raw material for producing the hot rolled (HR) and cold rolled (CR) by UML.

Moderate overall gearing along with modest debt coverage indicators: UG's capital structure remained moderate marked by an overall gearing of 1.87x as on March 31, 2019 on account of continued reliance on bank borrowings to fund working capital requirements as well as term loan availed for capex and other requirements. Furthermore, UG's

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

debt coverage indicators (PBILDT interest coverage, total debt/ PBILDT and total debt/GCA) also remained modest during FY19 with deterioration in the same on account of lower cash accruals while debt levels remained stable.

Liquidity*: Stretched* –
UG had stretched liquidity with high utilization of working capital limits at around 95% for the past 12 months ended August 2019 leaving little room for funds to meet any exigencies. Furthermore, UML had an elongated operating cycle of 80 days in FY19 with lengthening of credit period offered to customers given its presence in a highly competitive market and sluggish demand scenario. Also, UG is required to maintain adequate inventory in the form of raw materials as well as finished goods due to commodity nature of product. Scheduled debt repayments over the next three years are in the range of Rs.3-4 crore which is expected to be met thinly with expected cash accrual generation. To aid the scheduled debt repayment as well as liquidity, UG sold off its investment of Rs.5.43 crore in Mangalam Steel and Alloys Ltd. (MSAL) with a profit of Rs.1.47 crore during the current year.

Key Rating Strengths
Experienced promoters with established presence in steel industry: UG is promoted by Mr. Uttamchand C Mehta, Chairman, who is a chemical engineer from BITS Pilani and has an experience of more than three decades in the steel industry. In addition to UML & CPL, the promoter also manages other entities in the steel industry, with group having track record of operations of more than three decades.

Analytical Approach: Consolidated – UML and its wholly owned subsidiary, CPL.
Earlier, a combined view of three entities of three entities of the Unison Group, viz. UML, UMCL and UFL was considered for arriving at the ratings of UML. However, by the end of FY18, UFL's operations were ceased and its assets were liquidated pursuant to a management decision to that effect. Further, in June 2019, UMCL [engaged in manufacturing of stainless steel (SS) ingots and hot rolled sheets] was amalgamated into CPL as per a scheme of amalgamation approved by the National Company Law Tribunal (NCLT). Hence, a consolidated view of UML (which post amalgamation encompasses the business operations of erstwhile UMCL), referred to as Unison Group (UG), has now been considered for analysis.

Applicable Criteria:
Criteria on assigning Outlook to Credit Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instrument
Rating Methodology: Factoring Linkages in Ratings
CARE's methodology for Manufacturing Companies
Rating Methodology - Steel Companies
Financial ratios - Non- Financial Sector

About the Company
Ahmedabad, Gujarat, based UML is a part of Unison Group (UG) and was incorporated as a private limited company in 1990. Later on, it was converted in to a listed public limited company. UML is engaged in manufacturing of SS cold rolled sheets with an installed capacity of 6,600 metric tonnes per annum (MTPA) as on March 31, 2019 at its manufacturing facility located in Ahmedabad, Gujarat. Earlier, UML was also engaged in manufacturing of stainless steel kitchenware and tableware, which it discontinued by end FY19. CPL, the wholly owned subsidiary of UML, is engaged in manufacturing of SS ingots and hot rolled sheets from metal scrap (post amalgamation of UMCL into CPL).

Consolidated financials of UML are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)*	FY19 (A)**
Total operating income	178.55	149.28
PBILDT	10.17	7.81
PAT	1.68	0.12
Overall gearing (times)	1.58	1.87
Interest coverage (times)	1.64	1.53

*A: Audited, *Combined financials of UML, UMCL and Unison Forgings Ltd. (UFL)*
*** As per abridged financials published on the stock exchange*

Further, during Q1FY20, UG reported a total operating income of Rs. 39.79 crore with net loss of Rs.0.80 crore.

Standalone financials of UML are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	66.83	65.29
PBILDT	5.00	5.37
PAT	0.62	0.48
Overall gearing (times)	2.04	1.76
Interest coverage (times)	1.60	1.66

A: Audited

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-Cash Credit	-	-	-	17.00	CARE BB; Stable
Fund-based – LT – Subordinated Bank Loan	-	-	March 2022	2.19	CARE BB; Stable
Fund-based – LT – Term Loan	-	-	August 2026	5.62	CARE BB; Stable
Non-fund-based-ST- Bank Guarantee	-	-	-	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	17.00	CARE BB; Stable	1)CARE BB; Stable (03-Apr-19)	-	1)CARE BB; Stable (22-Feb-18) 2)CARE BB; Stable (25-May-17)	1)CARE BB (30-Sep-16)
2.	Fund-based – LT – Subordinated Bank Loan	LT	2.19	CARE BB; Stable	1)CARE BB; Stable (03-Apr-19)	-	1)CARE BB; Stable (22-Feb-18) 2)CARE BB; Stable (25-May-17)	1)CARE BB (30-Sep-16)
3.	Fund-based – LT – Term Loan	LT	5.62	CARE BB; Stable	1)CARE BB; Stable (03-Apr-19)	-	1)CARE BB; Stable (22-Feb-18) 2)CARE BB; Stable (25-May-17)	1)CARE BB (30-Sep-16)
4.	Non-fund-based-ST- Bank Guarantee	ST	2.00	CARE A4	-	-	-	-

***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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About CARE Ratings:
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