



Press Release

Manaksia Coated Metals & Industries Limited

August 18, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facilities	15.00	IVR A-/Stable (IVR Single A minus with Stable Outlook)	Assigned
	Total	15.00 (Rupee Fifteen crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Manaksia Coated Metals & Industries Limited (MCMIL) derives strength from extensive experience of its promoter, stable financial performance and satisfactory capital structure with comfortable debt protection parameters. The rating also positively notes strategic location of its plant giving strategic advantages. However, these rating strengths remain constrained due to susceptibility of its profitability to volatility in raw material prices and fluctuation in foreign exchange rates. The rating also considers vulnerability of demand to cyclicalities in the end-user industries and working capital intensive nature of its operations.

Key Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors:

- Decline in operating income and/or profitability impacting the debt coverage indicators with interest coverage ratio below 1.2x
- Withdrawal of subordinated unsecured loans amounting to Rs.44.46 crore and/or deterioration in overall gearing to over 1.5x



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- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings to more than 95% on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters**

MCMIL is a part of the Manaksia Group and its promoters have extensive industry experience of more than three decades. Currently, the operations are looked after by Mr. Sushil Kumar Agrawal who has an experience of more than two decades. He is well supported by Mr. Karan Agrawal in managing the day to day operations of the company who also looks into the investments and backward integration projects for the company. The other promoter directors i.e. Mr. Sunil Kr. Agrawal and Mr. Anirudha Agrawal (son of Mr. Sunil Kr. Agrawal) are also involved into the overall management of the company. The extensive experience of the Agrawal family has helped the company to establish a healthy relationship with customers and suppliers.

- **Strategic location of plant**

MCMIL's colour coated and galvanizing plant located at Kutch, Gujarat enjoys proximity to Mundra Port (70 km) and Kandla Port (50 km) which facilitates easy transport, leading to low transportation cost. Apart from this, the Bhuj-Bhachau Highway which provides good road connectivity is only 5 kms away from the company's manufacturing unit.

- **Stable financial performance**

The financial performance of the company remained stable over the past years. The operating income has remained range bound between ~Rs. 229-Rs. 251 crore over FY18-FY20. The Company's business operations mainly consist of value added secondary metal products (contributing 90-94% of total revenue) like Galvanised Corrugated Sheets, Galvanised Plain Sheet, Colour Coated (Pre-painted) Sheets and Coils. Apart from this, the company was also engaged in manufacturing of Mosquito Repellent coils on contract basis for Reckitt Benckiser. However, mosquito repellent coil segment was not doing well and registered negative growth in FY19, hence company discontinued its operation in FY20. In March 2019, the company started commercial production of Ultra Marine Blue Powder under contract manufacturing agreement with Reckitt Benckiser (India) Pvt Ltd for their brand "Robin Blue" with 100% Buy Back arrangement. Moreover, in order to backward integrate its



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operations, during Q-4 FY18 the company set up continuous Steel Galvanizing line with installed capacity of 1,08,000 MTPA. In FY20, total operating income declined by ~2% on y-o-y basis to Rs.245.85 crore due to lower sales volume and fall in realization of colour coated metal products. However, despite fall in realization of metal products in FY20, EBITDA margin improved by 174 bps to 10.87%. In FY19, company faced initial stabilization issues in galvanizing unit which led to low capacity utilization. However, in FY20 stabilization of galvanizing unit and enhancement in working capital limits in December 2019 helped in scaling up operations and improvement in operating margin. Infomerics believes going forward growth in earnings will be driven by improved revenue from galvanizing unit. During FY20, PAT margin improved to 1.97% in line with improvement in EBITDA margin. Net sales during Q1FY21 stood at ~Rs.65 Crore against ~Rs.52 crore in Q1FY20.

- **Satisfactory capital structure with comfortable debt protection parameters**

The long term debt equity ratio and the overall gearing ratio were comfortable at 0.23x and 0.71x respectively as on March 31, 2020 against 0.31x and 0.82x respectively as on March 31, 2019. The unsecured loans from promoters/directors/related parties (Rs.44.46 crore as on March 31, 2020) will remain in the company till currency of the bank loan (as mentioned in the bank sanction letter) and the same has been considered as quasi-equity. Further, the debt protection metrics as indicated by the interest coverage ratio and Total debt/GCA stood at 1.58x and 7.97 years respectively in FY20. Total indebtedness of the company as reflected by TOL/ATNW stood at 2.24x as on March 31, 2020.

Key Rating Weakness:

- **Exposure of margins to volatility in raw material prices and exchange rates**

The company's profit margins are susceptible to fluctuations in raw material prices such as cold rolled steel coils, zinc, paint and chemicals. MCMIL's import of raw materials exposes the company to foreign exchange fluctuation risk. However, the risk is mitigated to some extent by way of natural hedge as the company also exports the finished products. The company also uses forward cover to hedge its foreign exchange exposure.

- **Vulnerability of demand to cyclicity in the end-user industries**

MCMIL operates in a competitive environment which exerts pressure on pricing. The Company's business operations mainly consist of value added secondary metal products (contributing 90-94% of total revenue) like Galvanised Corrugated Sheets, Galvanised Plain



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Sheet, Colour Coated (Pre-painted) Sheets and Coils. The demand for these products is vulnerable to the cyclical nature in end-user industries namely automobiles, construction and consumer durables. Any downturn in the economic cycle adversely impacts demand.

- **Working capital intensive nature of operations**

The company's operations are working capital intensive marked by high inventory holding period of around 5-6 months. Consequently, the average working capital limit utilisation was high at ~90% during the last 12-month period. High working capital requirements have also been met by stretching payments to creditors and unsecured loan from directors/related parties.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The company's liquidity position is expected to remain adequate in the near term on the back of its expected gross cash accruals in the range of ~Rs.14-19 crore vis-à-vis its debt repayment obligations in the range of Rs.6-8 crore during FY21-23. The company has generated a gross cash accrual of ~Rs.11 crore in FY20. However, its high working capital requirements due to elongated inventory holding period put pressure on liquidity position. High inventory level led to stretched creditor position to support the liquidity in FY20. The average working capital limit utilisation was above 90% during the past twelve months ended June 2020 indicating a limited liquidity buffer. However, comfort could be derived from sustained unsecured loans extended by the promoters/related parties to support the working-capital intensive nature of operations. Infomerics believes enhancement in working capital limits are crucial for improvement in liquidity of the company.

About the Company

Incorporated in March 2010, Manaksia Coated Metals & Industries Limited, a part of the conglomerate Manaksia Group, is engaged in the manufacturing of value added metal products such as Pre-Painted Metal Coils & Metal Sheets and Galvanized Steel sheets and



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coils. Apart from the metal operations in Kutch (Gujarat), the company in FY20 also started contract manufacturing operations with Reckitt Benckiser to produce Ultramarine Blue Powder in Bhopal.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	251.04	245.85
EBITDA	22.92	26.72
PAT	0.27	4.88
Total Debt	89.46	88.22
Adjusted Net worth	109.50	124.42
EBITDA Margin (%)	9.13	10.87
PAT Margin (%)	0.11	1.97
Overall Gearing Ratio (x)	0.82	0.71

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	15.00	IVR A-/ Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	15.00	IVR A-/ Stable
Total	-	-	-	15.00	