

India Ratings Affirms Shetron at 'IND BB'; Outlook Stable

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India Ratings and Research (Ind-Ra) affirmed Shetron Limited's Long-Term Issuer Rating at 'IND BB'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term loan	-	-	January 2031	INR320.1 (reduced from INR343.1)	IND BB/Stable	Affirmed
Fund-based facilities	-	-	-	INR287.5 (reduced from INR362.5)	IND BB/Stable/IND A4+	Affirmed
Non-fund-based facilities	-	-	-	INR390.0	IND BB/Stable/IND A4+	Affirmed

KEY RATING DRIVERS

The affirmation reflects Shetron's modest and volatile EBITDA margin due to fluctuations in raw material prices and competition from the unorganised sector. EBITDA margin ranged between 12.4% and 16.1% during FY15-FY18 and reduced to 12.4% in FY18 (FY17: 15.5%) due to higher raw material prices and sales decline in the battery division to 29.9% in FY18 (FY17: 41.9%) which fetches higher margins than cans division. ROCE was 11% in FY18.

The ratings continue to reflect the company's tight liquidity. Average utilisation of the fund-based facility and non-fund based facility was about 98% and 92%, respectively, during the 12 months ended October 2018 and cash balance was INR2.6 million at FY18 (FY17: INR63.1 million). Its fund flow from operations and cash flow from operations have been positive since FY15. The company had unutilised credit lines of INR3.1 million in FY18.

The ratings are constrained by Shetron's moderate credit metrics. In FY18, EBITDA interest coverage (operating EBITDA/gross interest expense) was 1.8x in FY18 (FY17: 1.7x) and net financial leverage (total adjusted net debt/operating EBITDA) was 3.5x (3.5x).

The ratings are also constrained by Shetron's medium scale of operations Revenue increased to INR1,682.5 million in FY18 (FY17: INR1,487.4 million) on account of an increase in the volumes of cans sold. The company booked a turnover of INR1,060.0 million in 1HFY19 and had an order book of INR299.2 million for next four months.

The ratings are also supported by the company's promoter's more than three decades of experience in the business of metal

packaging and battery jackets manufacturing that has helped them in establishing healthy relationships with customers and suppliers.

RATING SENSITIVITIES

Positive: A substantial improvement in the revenue and EBITDA margin leading to an improvement in the credit metrics on a sustained basis will be positive for the ratings.

Negative: Deterioration in the EBITDA margin leading to deterioration in the credit metrics on a sustained basis could be negative for the ratings.

COMPANY PROFILE

Shetron is a Bangalore-based company, listed on the Bombay Stock Exchange. It was established in 1980 by Mr. Diwakar S. Shetty and his associates jointly with the Karnataka State Industrial & Investment Development Corporation. The company manufactures metal packaging, printed metal sheets, metal cans & lug caps for foods and dry-cell battery jackets & components.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	1,682.5	1,487.4
EBITDA (INR million)	207.9	230.6
EBITDA margin (%)	12.4	15.5
Gross interest coverage (x)	1.8	1.7
Net leverage (x)	3.5	3.5

Source: SL, Ind-Ra

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	15 November 2017	27 February 2017	8 January 2016
Issuer rating	Long term	-	IND BB/Stable	IND BB/Stable	IND D	IND BB+/Stable
Long-term loan	Long term	INR320.1	IND BB/Stable	IND BB/Stable	IND D	IND BB+/Stable
Fund-based facilities	Long-term/Short term	INR287.5	IND BB/Stable/IND A4+	IND BB/Stable/IND A4+	IND D	IND BB+/Stable/IND A4+
Non-fund-based facilities	Long-term/Short-term	INR390.0	IND BB/Stable/IND A4+	IND BB/Stable/IND A4+	IND D	IND BB+/Stable/IND A4+

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

[Corporate Rating Methodology](#)

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