POCL Enterprises Limited

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	65.70	CARE BBB; Stable	Assigned
Long Term / Short Term Bank Facilities	11.30	CARE BBB; Stable / CARE A3+	Assigned
Short Term Bank Facilities	13.00	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of POCL Enterprises Limited (POEL) positively factors the improving scale of operations, reputed clientele and diversified supplier base and long track record of operations of the promoters in the same line of business. The ratings are however constrained by lower profitability margins, customer concentration risk, raw material price volatility due to the commoditized nature of product, forex risk and regulatory risk arising from stringent environmental standards.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations and PBILDT margin above 4%
- Improvement in leverage with overall gearing below 1.25x

Negative factors

- Decrease in scale of operations and decrease in PBIDLT margin below 2%
- Increase in overall gearing beyond 2.25x
- Elongation in collection period or inventory period beyond 3 months

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited believes that POEL credit profile will remain stable with a sequential scaling up of operations with addition of new clients. Leverage and debt coverage indicators are expected to remain stable.

Detailed description of key rating drivers:

Key strengths

Improving scale of operations

POEL majorly recycles lead from scrap to its pure form to metal concentrations of above 99.5% along with production of lead alloys and metal oxides which contributes to revenue of about 60-65%. Company derives 15-20% of its revenue from zinc oxide manufacturing and about 10-20% from manufacturing PVC stabilizers.

Scale of operations of the company has been between Rs.450-500 Cr (except for FY20 & FY21 where sales was between Rs.300-350 Cr on the backdrop of COVID-19 restrictions). However, sales improved to sharply Rs.874 Cr during FY23 on the back of improvement in orders from clients.

Reputed clientele and diversified supplier base

POEL caters to reputed clients in the domestic market and exports 40% of its sales. Domestic contracts are generally short-term in nature i.e., within 1 year and export contracts vary between 1-2 years. Hence, POEL has been consciously improving its export sales over the years to diversify its customer base to have a portfolio of short-term and long-term contracts to aid revenue visibility.

The company majorly procures 70% of its raw materials (scrap) from various countries in the international market such as UK, UAE, Germany, Netherlands, etc. and also sources domestically, thus operating with a wide supplier base.

Long track record of promoters

The promoters having been associated with similar concerns in the past, have nearly three decades of experience in same line of business. They have also established relationships with reputed client base and with diversified supplier base in both domestic and international markets.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key weaknesses

Low profitability margins which are exposed to raw material volatility

Due to limited value addition in terms of only recycling metals by smelting and refining, the PBILDT margin of the company was low between 2-3% in the past, however the same has marginally improved to 3.28% as per FY23 results.

The cost structure of the company is driven by raw material consumption at 85-90% over the last few years. Due to the commoditized nature of lead and zinc, the margins of the company are susceptible to high volatility in the raw material/metal prices even in short-term period. Further, margins of the company are exposed to forex risk as POEL nearly imports 70% of its raw material. Though forex risk is mitigated to certain extent by export sales, and fixed price contracts when transit time of supply exceeds more than a month, any adverse fluctuations in foreign currency could impact the profit margins of the company.

Leveraged capital structure

The company has a small net worth base in relation to size of its operation leading to highly leveraged capital structure. Despite a significant increase in operations in FY23, debt levels in FY23 end remained being similar to those in FY22 resulting in improvement in leverage levels. However, given that profitability is low, leverage levels are expected to be moderate given the increasing working capital requirements.

Customer concentration risk

The company's major revenue during FY23 was concentrated with one major client contributing to nearly 25% of its overall TOI. Though this order has helped the company to scale up its operations, it has also led to single client concentration risk.

Regulatory risk arising from stringent environmental standards

Companies engaged in lead manufacturing process must adhere to rigorous pollution control norms as the industry is extremely polluting and has hazardous effect on the environment. Any deviation from the prescribed waste handling procedure could result in stringent regulatory action.

Industry prospects

The prospect of the industry is estimated to attain benefit from the growing scrap metal recycling market and the rising demand for lead-acid batteries for energy storage. The rolling out of Battery Waste Management Rules, 2022, by the Government of India is also expected to aid growth in the battery recycling industry.

Liquidity: Adequate

The company is estimated to generate adequate gross cash accruals to meet its long term scheduled debt obligations. The term debt is only in the form of GECL loans. The operating cycle improved to 38 days on March 31, 2023, due to shorter working capital in the lead manufacturing process (PY: 58 days), where the company has scaled up its operations. POEL has maintained unencumbered cash and bank balance of Rs.2.83 Cr as on Mar 31, 2023.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Non Ferrous Metal

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Non - Ferrous Metals	Zinc

POEL is a recycler/secondary manufacturer of non-ferrous metals such as lead and zinc products. POEL operates with 5 factories (3 factories in Tamil Nadu & 2 factories in Pondicherry) with overall capacity of 56,445 MT. The chairman (Mr. Devakar Bansal) and managing director (Mr. Sunil Kumar Bansal) of the company are aided by other family members/directors in their day-to-day operations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A*)
Total operating income	318.88	497.87	874.36
PBILDT	8.71	12.17	28.65
PAT	1.46	3.37	12.90
Overall gearing (times)	2.42	2.22	1.75
Interest coverage (times)	1.37	1.65	2.80

A: Audited UA: Unaudited; PY: Previous Year; Note: 'the above results are latest financial results available'
*Abridged results as disclosed to the stock exchange

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	65.70	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	13.00	CARE A3+
Non-fund-based - LT/ ST-BG/LC		-	-	-	11.30	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT*	65.70	CARE BBB; Stable				

2	Fund-based - ST-EPC/PSC	ST**	13.00	CARE A3+				
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	11.30	CARE BBB; Stable / CARE A3+				

*Long term **Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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