POCL Enterprises Limited

March 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	84.60 (Enhanced from 65.70)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	6.00 (Reduced from 11.30)	CARE BBB; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities^	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.
^CARE Ratings has withdrawn the short-term rating assigned to the working capital facilities as the company has reclassified its limits with other lenders and there is no amount outstanding under the said facility.

Rationale and key rating drivers

The ratings assigned to the bank facilities of POCL Enterprises Limited (POEL) continue to derive comfort from the increasing scale of operations, reputed clientele, established supplier base and promoter's experience in the same line of business. The ratings are, however, constrained by the company's low profitability margins, which are further exposed to raw material price volatility due to the commoditized nature of the products, forex risk, client concentration risk, and regulatory risk resulting 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 PBILDT margins below 2%.
- Increase in overall gearing beyond 2.25x.
- Elongation in collection or inventory period beyond 3 months.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited believes that the credit profile of POEL will remain stable in the medium term with sequential scaling up of operations by engaging with its key clients duly supported by its capex expansion plans.

Detailed description of the key rating drivers:

Key strengths

Improvement in scale of operations

POEL recycles nonferrous metals, primarily lead, from scrap into pure form with metal concentrations greater than 99.5%, as well as lead alloys and oxides. These lead products are largely used in the battery manufacturing industry and have been contributing more than 60-65% of the total revenue of POEL. Zinc oxide manufacturing accounts for 15-20% of the company's total revenue. Zinc oxide is used as a vulcanizing agent in the rubber manufacturing process to improve its durability. The company also produces a limited amount of PVC stabilisers (which account for roughly 10-20% of its sales) that are used as additives/specialty chemicals to offer strength and durability while plastic is extruded to build pipes, etc.
The company's TOI scaled to Rs.874 Cr in FY23 from Rs.498 Cr in FY22 (a 76% rise in TOI driven by a 58% increase in sales volume) aided by the capacity addition of 6,600MT during FY23. TOI was Rs.813 crore in 9MFY24 compared to Rs.632 Cr during 9MFY23. The proposed addition of further capacity in Smelting capacity by 7,200 MTPA and in refining capacity by 11,000 MTPA is expected to bolster the scale in future.

Reputed clientele and diversified supplier base

POEL caters to reputed clients in the domestic market and export market. Domestic contracts are generally short-term in nature i.e., within 1 year and export contracts vary between 1-2 years. POEL's domestic sales have expanded in the last two fiscal years consequent to addition of reputed lead-acid manufacturers to its client roster. Exports are done to array of international clients primarily operating out of APAC region and export sales accounted for 21% of the company's total sales in FY23 (at Rs.184 Cr)

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

as against 40% in FY22 (at Rs.199 Cr). The company imports 90% of its raw materials from scrapyards in the United Kingdom, the United States, and Southeast Asia, allowing it to operate with a diverse supply base.

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

Key weaknesses

Low profitability margin which is exposed to both raw material price volatility and forex risk
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 marginally improved to 3.28% as per FY23 results and was at 3.19% in 9MFY24.
The cost structure of the company is driven by raw material costs at about 85-90% of the TOI over the last few years. Given that both the final product and raw materials are both commodities and exposed to high level of price volatility the margins would remain volatile and susceptible to high volatility in the raw material/metal prices in the short-term period. Further, the margins of the company are exposed to forex risk as POEL imports nearly 90% of its raw material. Though forex risk is mitigated to a 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 the size of its operation leading to a highly leveraged capital structure. Despite a significant increase in operations in FY23, debt levels in FY23 end remained 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.

Client concentration risk
POEL's revenue in FY23 and 9MFY24 was concentrated with one major client contributing to nearly 33% of its total TOI. Though this order has helped the company to scale up its operations, it has also led to a 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
Lead acid batteries are the most common portable energy source finding uses in various industries. The lead acid batteries contain harmful contents such as lead, antimony, arsenic, and acids, which damage the environment and endanger human health. Recycling prevents this and costs less than mining and processing lead from ore.
During 2022, GOI also revised Battery Waste Management rules. The rules' function based on the concept of Extended Producer Responsibility (EPR) where the producers (including importers) of batteries are responsible for collection and recycling/refurbishment of waste batteries and use of recovered materials from wastes into new batteries. EPR mandates that all waste batteries to be collected and sent for recycling/refurbishment, and its prohibits disposal in landfills and incineration. To meet the EPR obligations, producers may engage themselves or authorise any other entity for collection, recycling, or refurbishment of waste batteries.

Liquidity: Adequate

The company has generated gross cash accruals of Rs.12.15 crore during 9MFY24 and is expected to generate enough accruals to cover its term debt repayment commitments in FY24. The company's operating cycle improved to 38 days due to improvement in collection period on the back of availing bill discounting facilities. The average utilisation of working capital limits (fund based) for the 10-month period ended in January 2024 was 68%.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Non Ferrous Metal
Financial Ratios – Non financial Sector
Short Term Instruments
Withdrawal Policy

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 and secondary manufacturer of nonferrous metals such as lead and zinc. POEL operates 5 factories (3 in Tamil Nadu and 2 in Pondicherry) with a total capacity of 57,345 MT. The managing directors Devakar Bansal and Sunil Kumar Bansal are supported by family members and directors in daily operations.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total operating income	497.87	874.36	812.77
PBILDT	12.17	29.08	25.96
PAT	3.37	12.89	11.09
Overall gearing (times)	2.22	1.75	--
Interest coverage (times)	1.65	2.72	2.66

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickworks Ratings has conducted the review on the basis of best available information and has classified POEL as "Issuer Not cooperating" vide its press release dated August 28, 2023.

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		-	-	-	84.60	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC		-	-	-	6.00	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	84.60	CARE BBB; Stable	1)CARE BBB; Stable (21-Jul-23)	-	-	-
2	Fund-based - ST-EPC/PSC	ST	-	-	1)CARE A3+ (21-Jul-23)	-	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	6.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (21-Jul-23)	-	-	-

*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:
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