

Rating Update

December 31, 2021 | Mumbai

Zoloto Industries

Update as on December 31, 2021

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

Upward factors

- *A sustained increase in revenue while maintaining the operating margin at 18%
- *Improvement in the working capital cycle
- *An increase in net cash accrual to Rs 8 crore per fiscal, supported by a decrease in withdrawals

Downward factors

- *A decline in operating profitability by 300 basis points
- *A stretch in the working capital cycle, weakening liquidity
- * A decline in net cash accrual to below Rs 3 crore per fiscal due to increase in withdrawals

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Zoloto Industries (ZI) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Firm

ZI was set up in 1966 by Mr Satinder Vir Hans as a partnership firm. It manufactures brass and bronze valves, cast iron and forged steel valves, and ferrous valves. The manufacturing unit is in Jalandhar, Punjab.

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Rating Rationale

November 27, 2020 | Mumbai

Zoloto Industries

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.90 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on the bank loan facilities of Zoloto Industries (ZI) at 'CRISIL BBB+/Stable/CRISIL A2'.

The ratings continue to reflect the healthy marketing network PAN India, the extensive experience of the promoters in the valve manufacturing industry, which has helped the company in growing its scale of operations. The ratings also factor in the healthy financial risk profile, marked by low gearing and above-average interest cover, driven by low term debt exposure and healthy networth. These rating strengths are partially offset by exposure to volatility in raw material prices, which has effected operating margins in fiscal 2020 with decline to 17.5% from 19.3% in the previous fiscal. The rating has factored in working capital intensive operations of the company as well driven by high inventory days which firm maintains for inventory risk mitigation.

Analytical Approach

Unsecured loans of Rs 13.15 crore as on March 31, 2020, have been treated as neither debt nor equity as they are from related parties, carry an interest of 11% per annum, and are expected to remain in the business over medium term.

Key Rating Drivers & Detailed Description

Strengths:

* **Strong brand and healthy marketing network:** The firm manufactures valves that are sold under brand Zoloto, which has a strong presence in the market, supported by good product quality and extensive advertisement. It has a wide marketing network PAN India, supporting its business operations.

* **Extensive industry experience of the promoters and comfortable revenue:** The promoters have an experience of five decades in the valve manufacturing industry. This has given them a sound understanding of industry dynamics, resulting in revenue growth to Rs 198 crore in fiscal 2020 from Rs 160 crore in fiscal 2017. The extensive experience of the promoters and the strong reputation should support the business during the current Covid-19 pandemic.

* **Healthy financial risk profile:** The interest coverage ratio was robust at 6.79 times, though the net cash accrual to adjusted debt was modest at 0.08 time, for fiscal 2020. The networth was comfortable at Rs 32.65 crore and the total outside liabilities to adjusted networth ratio low at 3.04 times, driven by limited term debt obligation, as on March 31, 2020.

Weaknesses:

* **Exposure to volatility in raw material prices:** The prices of raw materials such as zinc and copper are quite volatile, but the firm has the ability to pass on any price increase to customers due to the strong brand presence. The volatility in prices is reflected in the decline in the operating margin to 17.5% in fiscal 2020 from 19.3% in the previous fiscal. The margin is likely to be impacted in fiscal 2021 on account of a rise in raw material prices and low demand because of the pandemic.

* **Working capital-intensive operations:** Gross current assets were high at 221 days as on March 31, 2020, driven by debtors and inventory at 75 days and 113 days, respectively, though supported by creditors of 125 days. Higher inventory is maintained due to inventory risk mitigation which is cushioned by credit period availed from suppliers being partially backed by letters of credit.

Liquidity Adequate

Average bank limit utilisation was high at around 94% during the 12 months through October 2020. Cash accrual is expected at over Rs 4 crore, against term debt obligation of Rs 1.8 crore, per fiscal over the medium term. The excess will act as a cushion to liquidity. The firm has not availed any moratorium on its loans as allowed by the Reserve Bank of India to meet the financial stress caused by the pandemic.

The current ratio was moderate at 1.38 times on March 31, 2020. The promoters is likely to extend support in the form of equity and unsecured loans to meet working capital requirement and repayment obligation. The cash and bank balance was around Rs 20.28 crore as on March 31, 2020.

Outlook: Stable

CRISIL believes ZI will continue to benefit from the extensive experience of the proprietors.

Rating Sensitivity factors

Upward factors

- * A sustained increase in revenue while maintaining the operating margin at 18%
- * Improvement in the working capital cycle
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Downward factors

- * A decline in operating profitability by 300 basis points
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About the Firm

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Key Financial Indicators

As on / for the period ended March 31		2020*	2019
Operating income	Rs crore	198.94	199.85
Reported profit after tax (PAT)	Rs crore	20.45	23.80
PAT margin	%	10.3	11.9
Adjusted debt/adjusted networkth	Times	1.26	1.19
Interest coverage	Times	6.79	10.35

*Provisional

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size(Rs Crore)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	40	NA	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	40	NA	CRISIL A2
NA	Long Term Loan	NA	NA	Jul-2024	9	NA	CRISIL BBB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	50.00	CRISIL BBB+/Stable			06-08-19	CRISIL BBB+/Stable			28-11-17	CRISIL BBB+/Stable	CRISIL BBB+/Stable
						10-04-19	CRISIL BBB+/Stable					
						11-03-19	CRISIL BBB+/Stable (Issuer Not Cooperating)*					
Non Fund-based Bank Facilities	LT/ST	40.00	CRISIL A2			06-08-19	CRISIL A2			28-11-17	CRISIL A2	CRISIL A3+
						10-04-19	CRISIL A2					
						11-03-19	CRISIL A2 (Issuer Not Cooperating)*					

All amounts are in Rs.Cr.

*Issuer did not cooperate; based on best-available information

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	40	CRISIL BBB+/Stable	Cash Credit	40	CRISIL BBB+/Stable
Letter of Credit	40	CRISIL A2	Letter of Credit	40	CRISIL A2
Long Term Loan	9	CRISIL BBB+/Stable	Long Term Loan	9	CRISIL BBB+/Stable
Proposed Long Term Bank Loan Facility	1	CRISIL BBB+/Stable	Proposed Long Term Bank Loan Facility	1	CRISIL BBB+/Stable
Total	90	--	Total	90	--

Links to related criteria
Assessing Information Adequacy Risk
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
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Rating Criteria for Engineering Sector
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