

Press Release

Mitech Bus Door Systems Private Limited

April 09, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 11.00 crore bank facilities of Mitech Bus Door Systems Private Limited (MBPL). The outlook is '**Stable**'.

Incorporated in 2010 and based in Chennai, MBPL is engaged in the manufacture of bus doors and systems such as Jack & Knife Door, Inswing Door, Outswing Door, Driver Door, Emergency Door, and Luggage Panel Doors, among others. The day to day operations are managed by the promoter Mr. S.Raghupathi and Mr. V.Shanmugham. MBPL has a manufacturing facility located at Chennai (Tamil Nadu).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MBPL to arrive at the rating.

Key Rating Drivers

Strengths

- Established relationship with large clients**

MBPL is currently managed by its Directors, Mr. Raghupathi Suklam, Mr. Vellator Shanmugham, Mrs. Ganeswaran Kalaivani, Mr. Subhadra Prakash Pradeep Kumar and Ms. Jayanthi who have more than two decades of experience in auto ancillary industry. MBPL has strong in-house engineering and tool design capabilities to manufacture bus doors and systems with consistent quality and reliability resulting in repeat orders.

MBPL is a prominent supplier of bus doors and systems to leading automobile OEMs such as Ashok Leyland Ltd, Metropolitan Transport Corporation Chennai Ltd, Daimler India Commercial Vehicles Pvt Ltd, TATA Marcopolo Motors Ltd, Olectra Greentech Ltd, KMS Coach Builders Pvt Ltd, S.M.Kannappa Automobiles Pvt Ltd, Global TVS Bus Body Builders Ltd, VE Commercial Vehicles Ltd are the other major customers of the company. Consistent growth in the revenues of OEM's and client addition supported the revenue growth of MBPL at a compound annual growth rate (CAGR) of about 27 percent over the past three years through FY2018 at Rs.36.63 crore.

Acuité believes that with diversified product portfolio, diversified clientele, experienced management and established operational track record, MBPL continues to enjoy the benefit of scale of operations and enhance customer diversity over the medium term.

- Efficient working capital management**

MBPL's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 94 days historically, due to prudent inventory management, and the receivables are supported by reputed clientele. The inventory days of less than a month historically are majorly driven by local sourcing, and the payments from its clients are around 90 days. To augment the working capital, the company stretches the creditors to an extent of about 90 days which partly lead to weak current ratio of below 1.00 times in the past. With growth in revenues, moderate receivable cycle led to high utilisation of its bank limits of over 87 percent through February 2019.

Acuité believes that MBPL's operations continue to be efficiently managed supported by efficient collection mechanism and in time inventory levels.

Weaknesses

- **Moderate financial risk profile**

MBPL's financial risk profile is moderate marked by modest net worth, comfortable gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOLTNW) and debt protection metrics. MBPL's net worth is moderate at Rs.7.90 crore as on March 31, 2018 as compared to Rs.5.41 crore as on March 31, 2017. Gearing is comfortable at 1.27 times as on March 31, 2018. TOL/TNW stood at 2.42 times in FY2018, an improvement from 2.89 times in FY2017. Moderate net cash accruals lead to moderate NCA/TD and interest coverage ratio of 0.20 times and 4.16 times in FY2018 vis-à-vis 0.21 times and 3.30 times in FY2017, respectively. MBPL reported cash accruals of Rs.2.01 crore in FY2018. Its cash accruals are expected in the range of Rs.2.5-4.00 crore over the medium term against repayment obligations of about Rs.1.00 crore.

Acuité believes that with moderate accruals and no significant capex plans, the financial risk profile is expected to improve marginally over the medium term.

- **Modest scale of operations and declining profitability**

The auto component industry is highly competitive due to competition from organised and unorganised players. The growth of auto component manufacturer will continue to be driven by volume growth of its key OEMs. Auto ancillaries with exposure to OEMs are witnessing increased competition have limited scope for volume growth; further, it exerts pressure on the profitability also. MBPL has been in operations for over two decades; its scale of operations remained modest with operating income of Rs.36.63 crore in FY18. Profitability remains susceptible to pricing pressures from OEMs and volatility in raw material cost. The operating margins have been declining year-over-year from 12.74 per cent in FY2016 to about 10.07 per cent in FY2018. Volatile margins are owing to fluctuations in raw material prices, limited bargaining power and flexibility to pass on the prices to the customers. Further, the decline in the profitability is despite a growth in the revenues of over 38 per cent during 2016-18, purely reflecting variable nature.

Liquidity Position:

MBPL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.01 crore in FY2018. Cash accruals of MBPL are estimated to improve around Rs.2.50-4.00 crore during 2019-21, while its repayment obligations are estimated to be Rs.1.00 crore over the medium term. MBPL's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 94 days historically due to prudent inventory management, receivables and creditors of about 90 days. To augment the working capital, the company stretches the creditors to an extent of about 90 days, which partly lead to current ratio below 1.00 time in the past. With growth in revenues and moderate receivable cycle led to high utilisation of its bank limits of over 87 percent through February 2019. Acuité believes that the liquidity is expected to be at similar levels in the absence of any significant capex plans over the medium term.

Outlook: Stable

Acuité believes that MBPL will maintain a 'Stable' outlook over the medium term backed by its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, any capital withdrawal by partners or any significant debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.63	30.69	22.66
EBITDA	Rs. Cr.	3.69	3.07	2.89
PAT	Rs. Cr.	1.70	1.16	0.74
EBITDA Margin	(%)	10.07	10.01	12.74
PAT Margin	(%)	4.65	3.79	3.28
ROCE	(%)	21.94	20.04	36.85
Total Debt/Tangible Net Worth	Times	1.27	1.49	1.89
PBDIT/Interest	Times	4.16	3.30	2.57
Total Debt/PBDIT	Times	2.71	2.60	2.76
Gross Current Assets (Days)	Days	94	133	107

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.01	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.40	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.09	ACUITE A3

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About Acuité Ratings & Research:

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