

Press Release

Malwa Strips Private Limited

June 01, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 10.00 crore bank facilities of Malwa Strips Private Limited. The outlook is 'Stable'.

Malwa Strips Private Limited (MSPL), a Madhya Pradesh-based company was incorporated in 1987 by Mr. Dilip Doshi. MSPL is engaged in the business of manufacturing of copper strips, rods, bars, and insulated copper wires which finds application in infrastructure and power industry. MSPL has a total installed capacity of 1000 tonnes per annum.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

Malwa Strips Private Limited (MSPL) was incorporated in 1987 in Dewas (Madhya Pradesh). The promoter, Mr. Dilip Doshi has experience of more than four decades in the copper industry. Acuite believes that the company will be benefited by the established track record of operations and experienced management over the medium term.

- Established relationships with reputed clientele**

MSPL has established relations with reputed customers in the construction and power industry which includes Indian Railways, Bharat Heavy Electricals Limited (BHEL) and Crompton Greaves. The company has unexecuted order book position of Rs. ~5.00 crore as on 30 April, 2018 from these customers.

Weaknesses

- Average financial risk profile**

The financial risk profile of MSPL is moderate marked by tangible net worth of Rs.4.47 crore as on 31 March, 2017 which includes quasi-equity of Rs.0.55 crore. The total debt of Rs.6.79 crore outstanding as on 31 March, 2017 comprises Rs.0.65 crore as term loan from the bank and Rs.6.14 crore as working capital borrowings from the bank. The gearing is high at 1.52 times as on 31 March, 2017 as against 0.59 times as on 31 March, 2017. Interest Coverage Ratio stood at 1.49 times in FY2017 as against 1.74 times in FY2016. DSCR stood at 1.02 times in FY2017 as against 1.08 times in FY2016. The net cash accruals stood at Rs.0.50 crore in FY2017 as against Rs. 0.68 crore in FY2016. The NCA/TD ratio stood at 0.07 times in FY2017 as against 0.23 times in FY2016. Acuite believes that the ability of the company to generate adequate net cash accruals in order to serve its debt obligation will be key rating sensitivity.

- Working capital intensive operations**

The working capital cycle of MSPL is high marked by Gross Current Assets of 175 days in FY2017, even though it is lower than 215 days in FY2016. The inventory holding period stood at 73 days in FY2017 as against 105 days in FY2016. The receivable days are stable at 86 days in FY2017 as against 90 days in FY2016. The average bank limit utilisation stood at 99 percent for the last six months ended April 2018. Acuite believes that the operations of MSPL will remain working capital intensive given the nature of metal industry and high inventory holding period being inherent in this industry.

• Susceptibility of profitability margins to volatility in raw material prices

The profitability margins of MSPL are susceptible to fluctuations in the prices of copper since raw material accounts for ~79 percent of the total cost of sales. Any adverse movement in copper prices may impact the profitability of the company. Acuite believes that the ability of the company in order to maintain the profitability margins given the volatile nature of copper prices will be key rating sensitivity.

Analytical Approach

Acuite has considered the standalone business risk profile of Malwa Strips Private Limited to arrive at the rating.

Outlook: Stable

Acuite believes that MSPL will maintain a 'Stable' outlook over the medium term on account of the experienced management. The outlook may be revised to 'Positive' in case the company registers substantial increase in profitability margins supported by healthy revenue growth or significant improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins and deterioration in the financial risk profile or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	0.00	0.00	0.00
EBITDA	Rs. Cr.	0.00	0.00	0.00
PAT	Rs. Cr.	0.00	0.00	0.00
EBITDA Margin	(%)	5.45	8.69	6.66
PAT Margin	(%)	0.66	0.90	0.64
ROCE	(%)	15.29	15.80	29.38
Total Debt/Tangible Net Worth	Times	1.52	0.77	0.76
PBDIT/Interest	Times	1.49	1.74	2.08
Total Debt/PBDIT	Times	4.01	1.88	2.01
Gross Current Assets (Days)	Days	175	215	208

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

CARE, vide its press release dated April 03, 2018 had denoted the rating of Malwa Strips Private Limited as 'CARE B+/Stable/CARE A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BB-/Stable/CARE A4' vide its press release dated March 31, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.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	6.75	ACUITE B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE A4

Contacts

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About Acuité Ratings & Research:

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