

May 14, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	14.00*	SMERA BBB+/Stable (Assigned)
Letter of Credit	15.00**	SMERA A2 (Assigned)
Bank Guarantee	151.00	SMERA A2 (Assigned)

*Includes Export Packing Credit as a sublimit to the extent of Rs.0.50 crore

**One-way interchangeability from Inland/Import Letter of Credit to Bank Guarantee to the extent of Rs.10.00 crore

SMERA has assigned a long-term rating of '**SMERA BBB+** (read as **SMERA triple B plus**) and a short-term rating of '**SMERA A2**' (read as **SMERA A two**) to the abovementioned bank facilities of Midco Limited (Midco). The outlook is '**Stable**'. The ratings are supported by the company's established operations, strong market position and experienced management. The ratings also draw comfort from the company's strong financial risk profile and healthy order book position. However, the ratings are constrained by the company's high dependence on oil marketers. The ratings note that the company's business is susceptible to competitive pressures, oil price volatility and industry regulations. The ratings are also constrained by the company's high working capital requirements.

Midco, incorporated in 1949, is a Mumbai-based company engaged in manufacturing and servicing of fuel dispensing units. Midco also undertakes turnkey projects for installation and commissioning of auto gas pumps. The company is one of the largest suppliers of fuel dispensing units in India. Midco has integrated operations with presence across the value chain, including designing, manufacturing, installation and servicing. The company has a widespread service network of 23 offices across India.

Midco benefits from its experienced management. Mr. Neil Shah, managing director of Midco, is a second-generation entrepreneur with around 10 years of experience in the company's line of business.

Midco's healthy financial risk profile is reflected in healthy leverage (total outside liabilities to tangible net worth ratio) of 0.52 times (provisional) as on February 28, 2015. The company's net worth of Rs.250.56 crore (as on February 28, 2015) includes preference share capital of Rs.265.10 crore, which is considered as quasi-equity.

Midco is likely to benefit from the deregulation of fuel prices and recent decline in oil prices, which will boost investments in fuel retail outlets over the medium term. The company has a healthy order book position with pending orders of ~Rs.106.87 crore as on December 31, 2014.

Midco competes with international players such as Gilbarco Veeder-Root India Private Limited and Tokheim India Private Limited. The company's business is susceptible to sharp hike in oil prices and adverse changes in regulations, which may affect the capex plans of oil marketers. Midco's

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working capital cycle is stretched at 123 days in FY2013-14, given the extended collection period and locked-up funds in retention money.

Rating sensitivity factors:

- Investment in technology and new products
- Capacity expansion
- Lower-than-expected order inflow
- Lower-than-expected operating profit margin
- Early redemption of preference shares

Outlook: Stable

SMERA believes Midco will maintain a stable business risk profile over the medium term. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenue while maintaining healthy operating profit margin. The outlook may be revised to 'Negative' in case of deterioration in the company's capital structure, or in case the company registers lower-than-expected net cash accruals.

About the company

Midco is a Mumbai-based company incorporated in 1949. In March 2014, Midco was renamed as Mercantile and Industrial Development Co. Ltd. (Mercantile). Subsequently, the engineering business of Mercantile was transferred to Shuffle Realtors Pvt. Ltd. (which was renamed as Midco).

Midco undertakes manufacturing and servicing of fuel dispensing units. The company also executes turnkey projects for installation and commissioning of auto gas pumps. Midco has a production unit in Vatva (Ahmedabad), with installed capacity of 50,000 nozzle pumps per annum.

For FY2013-14, Midco reported profit after tax (PAT) of Rs.18.75 crore on revenue of Rs.194.52, as compared with PAT of Rs.8.18 crore on revenue of Rs.191.83 crore in the previous year. The company's net worth stood at Rs.266.15 crore (provisional) as on February 28, 2015. Midco registered revenue of ~Rs.205 crore (provisional) for the period April 2014 to March 2015. The company has issued 0.01% non-cumulative redeemable preference shares (non-convertible) of Rs.265.10 crore as purchase consideration for the engineering business of Mercantile. The preference shares are redeemable within 20 years. The goodwill arising on the acquisition amounts to Rs.204.75 crore.

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