

Press Release

MIDCO Limited (MIDCO)

18 July, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.200.00 Cr (Enhanced from Rs. 190.00 Cr)
Long Term Rating	SMERA BBB+/Stable (Reaffirmed)
Short Term Rating	SMERA A2 (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB+**' (read as **SMERA triple B plus**) and short term rating of '**SMERA A2**' (read as **SMERA A two**) on the Rs.200.00 crore (enhanced from Rs. 190.00 cr) bank facilities of MIDCO Limited (Mercantile and Industrial Development Co Limited). The outlook is '**Stable**'.

The Mumbai-based MIDCO incorporated in 1949 undertakes manufacturing and servicing of fuel dispensing units. The company also executes turnkey projects for installation and commissioning of auto gas pumps at its production facility at Vatva, Ahmedabad. The installed capacity stands at 50,000 nozzle pumps per annum.

List of key rating drivers and their detailed description

Strengths:

Established market position with experienced management: MIDCO, incorporated in 1949, is a Mumbai-based company engaged in the manufacturing and servicing of fuel dispensing units. The company also undertakes turnkey projects for installation and commissioning of auto gas pumps and is one of the largest suppliers of fuel dispensing units in India. MIDCO benefits from its experienced management. Mr. Neil Shah, Director, is a second-generation entrepreneur with around 10 years of experience in the company's line of business.

Reputed and diversified clients: MIDCO has an established customer base and includes reputed names such as Hindustan Petroleum Corporation Limited, Indian Oil Corporation Limited, Essar Oil Limited among others. The company has orders in hand worth Rs. 271.95 crore as on May 2017 to be executed by May 2018.

Healthy financial risk profile: The financial risk profile of the company continues to be healthy marked by interest coverage ratio (ICR) of 10.10 times and debt service coverage ratio (DSCR) of 9.66 times for FY2016-17 (Provisional) as compared to ICR of 11.11 times and 9.37 times DSCR for FY2015-16. The gearing of the company stood at 0.08 times as on 31 March, 2017 (Provisional) as compared to 0.07 times as on 31 March, 2016.

Weaknesses:

High dependence on government owned companies: The business is susceptible to sharp hike in oil prices and adverse changes in regulations, which may affect the capex plans of oil marketers. Further, the company is dependent on government owned companies for its revenues. Hindustan Petroleum Corporation Limited, India Oil Corporation Limited, Bharat Petroleum Corporation Limited are among the top 10 customers of the company.

Working capital intensive business: MIDCO's working capital cycle is stretched and stands at 195 days for FY2016-17 (Provisional) compared to 178 days for FY2015-16, given the extended collection period and funds locked-up in retention money. The debtors stood at 273 days for FY2016-17 (Provisional) compared to 210 days for FY2014-15.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Manufacturing entity: <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that MIDCO will maintain a stable outlook in the medium term. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues while maintaining healthy operating profit margin. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the capital structure, or lower-than-expected net cash accruals.

About the Rated Entity

The company reported net loss of Rs.13.14 crore on operating income of Rs.200.70 crore for FY2016-17 (Provisional), as against net loss of Rs.13.89 crore on operating income of Rs.191.45 crore in FY2015-16. The net worth stood at Rs.144.79 crore as on 31 March, 2017 (Provisional) against Rs.117.67 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: The company issued 0.01 per cent non-cumulative redeemable preference shares (non-convertible) of Rs.265.10 crore as purchase consideration for the engineering business of MIDCO. The engineering business was demerged and transferred to a new entity – Shuffle Realtors Pvt. Ltd. which was renamed Midco Limited. The preference shares are redeemable within 20 years. The goodwill arising on the acquisition amounts to Rs.204.75 crore.

Rating History for the last three years:

Date	Name of the Instruments	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
05 October, 2016	Cash Credit	24.00	SMERA BBB+ (Reaffirmed)	-	Stable
	Letter of Credit	15.00	-	SMERA A2 (Reaffirmed)	Stable
	Bank Guarantee	151.00	-	SMERA A2 (Reaffirmed)	-
08 August, 2016	Cash Credit	5.00	SMERA BBB+ (Reaffirmed)	-	Stable
	Cash Credit	9.00	SMERA BBB+ (Assigned)	-	Stable
	Cash Credit	9.00	SMERA BBB+ (Withdrawn)	-	Stable
	Letter of Credit	15.00	-	SMERA A2 (Reaffirmed)	-
	Bank Guarantee	148.00	-	SMERA A2 (Reaffirmed)	-
	Bank Guarantee	3.00	-	SMERA A2 (Assigned)	-
	Bank Guarantee	3.00	-	SMERA A2 (Withdrawn)	-
14 May, 2015	Cash Credit	14.00*	SMERA BBB+ (Assigned)	-	Stable
	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

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	NA	24.00	SMERA BBB+/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	NA	15.00	SMERA A2 (Reaffirmed)
Bank Guarantee	N.A	N.A	N.A	161.00 (Enhanced from 151.00)	SMERA A2 (Reaffirmed)

Note on complexity levels of the rated instrument:<https://www.smera.in/criteria-complexity-levels.htm>**Contacts:**

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Hina Gupta, Senior Rating Analyst, Tel: 022-67141111 Email: hina.gupta@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.