

Mangal Steel Enterprises Limited: Upgraded

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Packaging Credit in Foreign Currency	20.00	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Foreign Bill Discounting	11.00	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Stand by Line of Credit	5.00	SMERA A3 (Upgraded from SMERA A4+)
Letter of Credit	10.00	SMERA A3 (Upgraded from SMERA A4+)
Bank Guarantee	0.50	SMERA A3 (Upgraded from SMERA A4+)
Derivative FC	2.13	SMERA A3 (Upgraded from SMERA A4+)

SMERA has upgraded the long term rating of the abovementioned bank facilities of Mangal Steel Enterprises Limited (MSEL) to **'SMERA BBB-' (read as SMERA triple B minus)** from SMERA BB+ (read as SMERA double B plus) and the short term rating to **'SMERA A3' (read as SMERA A three)** from SMERA A4+ (read as SMERA A four plus) respectively. The outlook is **'Stable'**.

The rating upgrade is in view of improvement in the financial risk profile. Further, the company has also reported improved profitability margins for the year ended 31 March, 2016. SMERA expects that the company will sustain improvement in its financial risk profile over the medium term on the back of consistent growth in its net worth.

The ratings continue to draw support from the promoter's extensive experience in the steel industry, established relations with suppliers and healthy financial risk profile. The ratings also factor in the comfortable liquidity position of the company. However, the ratings are constrained by working capital intensive operations and geographical concentration risk. The ratings also take into account the foreign exchange fluctuation risk.

Update

MSEL reported profit after tax (PAT) of Rs.3.19 crore on operating income of Rs.92.85 crore for FY2015-16 (refers to financial year, April 01 to March 31) as compared to PAT of Rs.1.59 crore on operating income of Rs.79.93 crore in the previous year. The company reported operating margin of 8.14 per cent for FY2015-16 vis-à-vis 6.83 per cent in the previous year. The improvement in profitability is on account of decline in raw material prices and addition of value added products in the sales mix. The financial risk profile continues to be healthy marked by high net worth of Rs.49.31 crore in FY2016 vis-à-vis Rs.46.18 crore in FY2015, gearing of 0.47 times in FY2015-16 vis-à-vis 0.68 times in the previous year.

Further, the debt protection metrics are comfortable with interest coverage ratio at 3.32 times vis-à-vis 1.93 times in the previous year and debt service coverage ratio (DSCR) at 2.65 times vis-à-vis 1.72 times in the previous year. The return on capital employed (RoCE) stood at 9.71 per cent for FY2015-16 vis-à-vis 7.65 per cent in the previous year. The working capital cycle stood at 149 days for FY2015-16 and is expected to be maintained around 130-145 days over the medium

term. MSEL operates in a highly competitive and fragmented steel industry. Further, the profitability of the company is susceptible to foreign exchange fluctuation risk.

Rating Sensitivity Factors

- Scaling up operations and sustenance in profitability
- Efficient working capital management
- Extent of capex and its funding mix.

Outlook-Stable

SMERA believes MSEL will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected revenues, or registers deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

Criteria applied to arrive at the ratings:

- Manufacturing entities

About the Company

MSEL, incorporated in 1981, is a Kolkata-based company promoted by Mr. Biswanath Garodia, Mr. Brij Mohan Dalmia, and Mrs. Usha Garodia. The company is engaged in the manufacture and export of trellising products used in the vineyard industry, road construction, electrical industry among others.

For FY2015-16, MSEL registered profit after tax (PAT) of Rs.3.19 crore on operating income of Rs.92.85 crore, as compared with PAT of Rs.1.59 crore on operating of Rs.79.93 crore in FY2014-15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
15 July, 2015	Packaging Credit in Foreign Currency	20.00	SMERA BB+ (Assigned)	-	Stable
	Foreign Bill Discounting	11.00	SMERA BB+ (Assigned)	-	Stable
	Stand by Line of Credit	5.00	-	SMERA A4+ (Assigned)	-
	Letter of Credit	10.00	-	SMERA A4+ (Assigned)	-
	Bank Guarantee	0.50	-	SMERA A4+ (Assigned)	-
	Derivative FC	2.13	-	SMERA A4+ (Assigned)	-

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ABOUT SMERA

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