

Press Release

MANGAL STEEL ENTERPRISES LIMITED

29 January, 2018



Rating Upgraded

Total Bank Facilities Rated*	Rs. 48.63 Cr.
Long Term Rating	SMERA BBB / Stable (Upgraded)
Short Term Rating	SMERA A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long-term rating of '**SMERA BBB**' (read as **SMERA BBB**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs. 48.63 crore bank facilities of MANGAL STEEL ENTERPRISES LIMITED. The outlook is '**Stable**'.

The upgrade is in view of the improvement in the business risk profile of the company backed by consistent improvement in profitability margins and financial risk profile. The operating margins have improved to 8.70 per cent in FY2017 compared to 8.14 per cent in FY2016. The gearing of the company improved to 0.33 times as on 31 March, 2017 compared to 0.47 times as on 31 March, 2016. The Interest Coverage Ratio (ICR) stood comfortable at 4.92 times in FY2017 as against 3.32 times in FY2016. SMERA believes that MSEL, in the medium term, will maintain profitability margins along with further improvement in its financial risk profile.

The Kolkata-based Mangal Steel Enterprises Ltd. (MSEL), was incorporated in August, 1981 by Mr. Bishwanath Garodia, Mr. Brij Mohan Dalmia and Ms. Usha Garodia. The company manufactures agricultural hardware, chain link fencing, pole line hardware, construction hardware and trellising products. MSEL has recently ventured into manufacture of steel and export of trellising products.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

MSEL was incorporated in 1981 by Mr. B N Garodia, Director who possesses almost four decades of experience in the iron and steel industry.

- **Healthy profit margin**

The operating margins of MSEL improved to a comfortable 8.70 per cent in FY2017 as against 8.14 per cent in FY2016 mainly on account of reduction in raw material prices. The net profitability has been comfortable at 4.36 per cent in FY2017 and 3.44 per cent in the previous year mainly on account of decrease in finance cost.

- **Healthy financial risk profile**

The healthy financial risk profile is marked by healthy net worth, comfortable gearing and healthy debt protection metrics. The net worth is healthy at Rs.52.83 crore in FY2017, an increase from Rs.49.31 crore in FY2016, mainly due to retention of profits. The gearing improved to 0.33 times as on 31 March, 2017 as against 0.47 times as on 31 March, 2016. The total debt profile of Rs.17.38 crore consists of short term loan taken from the bank. The Interest Coverage Ratio (ICR) stood comfortable at 4.92 times in FY2017 as against 3.32 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 3.67 times in FY2017 compared to 2.65 times in FY2016. The net cash accruals against total debt stood at 0.25 times in FY2017 and 0.17 times in the previous year. Moreover, the company does not have any long term debt obligations.

Weaknesses

- **Working capital intensive operations**

The company's operations are working capital intensive as reflected in the Gross Current Assets (GCA) days of 225 in FY2016-17, an increase from 211 days in FY2015-16. The high GCA days emanate from the collection and inventory holding period of 77 days and 95 days respectively in FY2017. The company's operations are expected to remain working capital intensive, as it is engaged in the manufacture of a wide range of trellising and steel products that lead to inventory holding period of around 95 days.

- **Customer and geographic concentration risk**

MSEL exports to USA with North America Steel Corporation, Fastenal, Blue Links etc. being major customers.

Analytical Approach

For arriving at the ratings SMERA has considered the standalone financial performance and financial risk profile of MSEL.

Outlook: Stable

SMERA believes that MSEL will maintain a Stable outlook and continue to benefit over the medium term from its comfortable financial risk profile. 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 of failure in achieving the projected revenues, or deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	80.92	92.85	79.93
EBITDA	Rs. Cr.	7.04	7.56	5.46
PAT	Rs. Cr.	3.53	3.19	1.59
EBITDA Margin	(%)	8.70	8.14	6.83
PAT Margin	(%)	4.36	3.44	1.99
ROCE	(%)	10.04	9.71	14.56
Total Debt/Tangible Net Worth	Times	0.33	0.47	0.68
PBDIT/Interest	Times	4.92	3.32	1.93
Total Debt/PBDIT	Times	2.18	2.86	4.86
Gross Current Assets (Days)	Days	225	211	339

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

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
20-Oct-2016	Packing Credit in Foreign Currency	Long Term	INR 20	SMERA BBB- / Stable
	Foreign Bill Discounting	Long Term	INR 11	SMERA BBB- / Stable
	Standby Line of Credit	Short Term	INR 5	SMERA A3
	Letter of Credit	Short Term	INR 10	SMERA A3
	Bank Guarantee	Short Term	INR 0.5	SMERA A3
	Derivative Exposure	Short Term	INR 2.13	SMERA A3
15-Jul-2015	Packing Credit	Long Term	INR 20	SMERA BB+ / Stable
	Foreign Bill Discounting	Long Term	INR 11	SMERA BB+ / Stable
	Standby Line of Credit	Short Term	INR 5	SMERA A4+
	Letter of Credit	Short Term	INR 10	SMERA A4+
	Bank Guarantee	Short Term	INR 0.5	SMERA A4+
	Derivative Exposure	Short Term	INR 2.13	SMERA A4+

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	20.00	SMERA BBB/ Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A3+
Proposed	Not Applicable	Not Applicable	Not Applicable	23.13	SMERA A3+

Contacts

Analytical	Rating Desk
<p>Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in</p> <p>Abhishek Dey Executive Analyst - Rating Operations Tel: +91 33 6620 1208 abhishek.dey@smera.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p>

ABOUT SMERA

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