

Mittal Engineering Works: Reaffirmed

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	6.00	SMERA B+/Stable (Reaffirmed)
Term Loan	2.00	SMERA B+/Stable (Reaffirmed)
Letter of Credit	1.00	SMERA A4 (Reaffirmed)

SMERA has reaffirmed the long term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.9.00 crore bank facilities of Mittal Engineering Works (MEW). The outlook is '**Stable**'.

The ratings continue to be constrained by the modest scale of operations in an intensely competitive ERW (electrical resistance welded) tube industry. The ratings also factor in the low profitability, below average financial risk profile and working capital intensive operations. However, the rating draws comfort from the experienced management.

Update

MEW is engaged in the manufacture of ERW tubes. The firm's revenues have remained almost stagnant in FY2016 at Rs.34.23 crore compared to Rs.31.91 crore in FY2015. During April to September, 2016, the firm earned revenue of Rs.12.47 crore.

The operating margins declined significantly in FY2016 to 1.40 per cent as against 6.18 per cent in FY2015 due to low sales realisation. The net profit of Rs.0.04 crore is largely supported by non-operating income of Rs.1.36 crore which mainly includes profit on sale of asset of Rs.1.26 crore in FY2016.

The firm has below average financial risk profile marked by high TOL to TNW ratio of 4.57 times as on March 31, 2016. The net worth stands low at Rs.3.64 crore as on March 31, 2016. The interest coverage ratio stands moderate at 1.35 times in FY2016.

The GCA stands high at around 174 days in FY2016 on account of high debtor days of 127 in FY2016 which have increased from 84 days in FY2015. Debtors of Rs.11.92 crore include Rs.6.16 crore from Japtech Industries, a group concern.

However, as on September 25, 2016, the current outstanding debtors have reduced to Rs.8.86 crore (with Rs.8.43 crore outstanding less than 60 days) when compared to Rs.11.92 crore as on March 31, 2016. Further debtors of Rs.6.16 crore from Japtech Industries have reduced to Rs.4.57 crore.

Rating Sensitivity Factors

- Scaling up revenues and profitability
- Comfortable financial risk profile
- Efficient working capital management

Criteria applied to arrive at the ratings:

- Manufacturing Entities

Outlook – Stable

SMERA believes that the firm's outlook will remain stable in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm achieves sustained growth in revenues and profit margins with substantial improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues and profit margins or deterioration in the capital structure.

About the Firm

MEW was established in 1989 as a partnership firm by Mr. Laxminarayan Agarwal, Mr. Devichand Agarwal and Mrs. Bharpadevi Agarwal. Later in 2000, Mr. Mukesh Mittal joined as a partner.

The firm started off by manufacturing sheet metal components. From 2011 it began the manufacture of ERW tubes that contributed around 70 per cent to total sales and the balance 30 per cent from sheet metal components. The firm has a manufacturing unit with two tube mills in Chakan, Pune.

For FY2015-16, MEW reported net profits of Rs.0.04 crore on operating income of Rs.34.23 crore, as compared to net profits of Rs.0.09 crore on operating income of Rs.31.91 crore in FY2014-15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
24 August, 2015	Cash Credit	6.00	SMERA B+ (Assigned)	-	Stable
	Term Loan	2.00	SMERA B+ (Assigned)	-	Stable
	Letter of Credit	1.00	-	SMERA A4 (Assigned)	-

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ABOUT SMERA

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