

## Press Release

### Muthalamman Metal Industries

May 08, 2017

### Rating Downgraded

|                                     |              |
|-------------------------------------|--------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 5.95 Cr. |
| <b>Long Term Rating</b>             | SMERA D      |
| <b>Short Term Rating</b>            | SMERA D      |

\* Refer Annexure for details

### Rating Rationale

SMERA has downgraded long-term rating of '**SMERA D' (read as SMERA D )** and short term rating of '**SMERA D' (read as SMERA D)** on the Rs. 5.95 crore bank facilities of Muthalamman Metal Industries.

Muthalamman Metal Industries (MMI) was established as a partnership firm in 2006 by Mr. Sundralingam, Mrs. Jaya Sivakumar and Mr. Sivakumar (Chief Executive). The firm is engaged in the manufacturing of aluminium circles used to produce household utensils and cookware. The manufacturing unit is located at Kodungaiyur, Chennai.

### Key Rating Drivers

#### Strengths

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

MMI, established in 2006, is a Chennai-based partnership firm promoted by Mr. Sundralingam and Mrs. Jaya Sivakumar. The Chief Executive, Mr. Sivakumar has more than a decades experience in the aluminium utensil business.

- **Moderate profitability**

The profitability of the firm remains moderate. The firm registered EBITDA of 11.91 percent in FY2016 compared to 12.34 percent in FY2015. The net margins stood at 1.34 percent in FY2016 as against 1.25 percent in FY2015. The RoCE stood at a moderate 15.58 percent for FY2016.

#### Weaknesses

- **Delays observed in debt repayment**

The rating reflects on-going irregularities in repayment of instalments and interest on term loans on account of stretched and weak liquidity position.

- **Average financial risk profile**

The financial risk profile continues to remain average marked by moderate gearing (debt-to-equity ratio) of 2.62 times as on March 31, 2016 as against 2.95 times as on March 31, 2015. The networth was low at Rs.2.36 cr as on March 31, 2016 as against Rs.1.74 cr as on March 31, 2015. The firm has moderate debt protection metrics marked by average interest coverage ratio of 1.60 times and DSCR of 1.54 times in FY2016. The NCA/TD stood at 0.08 times in FY2016 against 0.06 times in FY2015. The TOL/TNW levels have been comfortable at 2.94 times in FY2016.

- **Working capital intensive operations**

MMI's operations continue to remain working capital intensive on account of gross current assets of around 148 days as on March 31, 2016 which improved from 182 days as on March 31, 2015. Further, the working capital cycle was stretched to 129 days as on March 31, 2016 and 131 days as

on March 31, 2015. The liquidity position of the firm remained stressed due to high debtor days over low creditor days. As informed by the banker, the cash credit limit of Rs. 2.50 cr has been fully utilised for the past six months ended February 2017. The current ratio stood at 1.56 times and unencumbered cash and bank balance was low at Rs.0.04 cr in FY2016.

• **Vulnerability of profit margins to volatility in raw material prices**

The operating margins of the firm declined to 11.91 percent in FY2016 due to increase in raw material overheads. The major expenses made by the firm were material overheads which accounted for around ~80 percent of total expenses in FY2016. Hence, the firm's profit margins are vulnerable to adverse fluctuations in prices of raw materials.

**Analytical Approach**

SMERA has considered the standalone business and financial risk profiles of the entity.

**Outlook:**

**About the Rated Entity - Key Financials**

In FY2015-16, MMI reported net profit of Rs.0.17 cr on operating income of Rs.12.57 cr as against PAT of Rs.0.10 cr on operating income of Rs.8.05 cr in the previous year. The net worth stood at Rs.2.36 cr as on March 31, 2016 against Rs.1.74 cr a year earlier.

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

None

**Any other information**

None

**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>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.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. Cr.) | Ratings/Outlook  |
|-------------|----------------------------------|------------|------------------|------------------|
| 08-Oct-2015 | Cash Credit                      | Long Term  | INR 2.5          | SMERA B / Stable |
|             | Letter of Credit/ Bank Guarantee | Short Term | INR 1.3          | SMERA A4         |
|             | Term Loans                       | Long Term  | INR 2.15         | SMERA B / Stable |

**\*Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-----------------|
| Cash Credit            | Not Applicable   | Not Applicable | Not Applicable | 2.50                        | SMERA D         |

|                  |                |                |                |      |         |
|------------------|----------------|----------------|----------------|------|---------|
| Term loans       | Not Applicable | Not Applicable | Not Applicable | 1.15 | SMERA D |
| Term loans       | Not Applicable | Not Applicable | Not Applicable | 1.00 | SMERA D |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 1.30 | SMERA D |

## Contacts

| Analytical  | Rating Desk   |
|---|---|
| Vinayak Nayak<br>Head – Ratings Operations<br>Tel: 022-67141190<br><a href="mailto:vinayak.nayak@smera.in">vinayak.nayak@smera.in</a><br><br>Sudarson Swami<br>Analyst - Rating Operations<br>Tel: 022-67141179<br><a href="mailto:sudarson.swami@smera.in">sudarson.swami@smera.in</a> | Varsha Bist<br>Sr. Executive<br>Tel: 022-67141160<br><a href="mailto:varsha.bist@smera.in">varsha.bist@smera.in</a> |

## ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit [www.smera.in](http://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](http://www.smera.in)) for the latest information on any instrument rated by SMERA.