Press Release

Manmeet Ispat Private Limited (MIPL)

May 21, 2018

Rating Downgraded

Total Bank Facilities Rated*	Rs.7.50 crore
Long Term Rating	SMERA B/ Stable (Downgraded from SMERA B+/Stable)

**Refer annexure for details*

Rating Rationale

SMERA has downgraded long term rating to **'SMERA B' (read as SMERA B)** from **'SMERA B+' (read as SMERA B plus)** on the Rs.7.50 crore bank facilities of Manmeet Ispat Private Limited (MIPL). The outlook is **'Stable'**.

The rating downgrade is in view of lower than expected revenues and declining profitability margins. SMERA believes that the ability of MIPL to sustain its profitability margins, scale of operations and maintain its credit profile in order to serve the debt obligation over the medium term will be key rating sensitivities.

Manmeet Ispat Private Limited (MIPL) based in Chhattisgarh was incorporated in 2004 by Mr. Sandeep Agrawal. MIPL is engaged in manufacturing of mild steel ingots and also trades in pig iron, cast iron, sponge iron and other related products. The manufacturing capacity stands at 24,000 MT per annum.

Key Rating Drivers

Strengths

Experienced management and long track record of operations:

MIPL, incorporated in 2004 is headed by Mr. Sandeep Agrawall (Managing Director). The day to day operations are handled by him and the promoters, Mrs. Chandra Agrawal and Mr. Dilip Agarwal. They all possess experience of over a decade in the iron and steel industry. SMERA believes that the long track record of operations and extensive experience of the management have helped the company maintain long term relations with customers and suppliers.

Comfortable working capital cycle:

The company has a comfortable working capital cycle with Gross Current Assets of 53 days in FY2018 (Provisional) against 81 days in FY2017. This is on account of lower receivable days policy which stood at around ~20 days in FY2018 (Provisional) and FY2017. The inventory holding period has improved to 34 days in FY2018 (Provisional) as against 45 days in FY2017. Further, the working capital limit is ~90 percent utilised as the company needs to pay in advance to its suppliers. SMERA believes that MIPL will maintain sufficient funds in order to maintain its working capital cycle over the near to medium term.

Weaknesses

Average financial risk profile:
The financial risk profile is average marked by a net worth of Rs.7.34 crore as on 31 March, 2018 (Provisional) as against Rs.7.17 crore as on 31 March, 2017. The gearing stood at 1.09 times as on 31 March, 2018 (Provisional) as against 1.18 times as on 31 March, 2017. The Total Debt of Rs.7.99 crore outstanding as on 31 March, 2018 (Provisional) is the working capital facility from the bank. The Interest Coverage Ratio stood at 1.53 times in FY2018 (Provisional) against 1.43 times in FY2017. The Net Cash Accruals stood at Rs.0.40 crore in FY2018 (Provisional) as against Rs.0.38 crore in FY2017. The NCA/TD ratio stood at 0.05 times in FY2017 as against 0.04 times in FY2016. SMERA believes that the ability of the company to maintain its financial risk profile will be key rating sensitivity.

Declining profitability margins:
The major raw material for MIPL is sponge iron and pig iron. The prices of iron are highly volatile in nature. Hence, any adverse movements in iron prices will directly impact the profitability margins of MIPL. MIPL reported negative operating profit of Rs.0.71 crore in FY2017 as against operating profit of Rs.1.13 crore in FY2016. However as per provisional financials for FY2018, MIPL reported operating profit of Rs.1.27 crore. MIPL is unable to pass on the prices to its customers due to competitive nature of the industry.

MIPL has started trading activity from FY2017 which is also impacting its profitability margins due to lower value addition nature of trading business where low profitability margins are inherent. Revenue contribution from manufacturing activity is declining Y-O-Y. The contribution from manufacturing activity stood at 62 percent in FY2018 (Provisional) as against 69 percent in FY2017. SMERA believes that increase in trading activity in the existing business profile will further put downward pressure on the profitability margins and the ability of MIPL to maintain its profitability margins over the near to medium term will be key rating sensitivity.

Operating in a highly fragmented and competitive industry:
MIPL operates in a highly fragmented iron and steel industry. The company faces competition from large number of organised, integrated and unorganised players. MIPL also faces intense competition from manufacturers of MS billets as the demand for billets is more as compared to ingots.

Analytical Approach:

SMERA has considered the standalone business and financial risk profile of MIPL to arrive at the rating.

Outlook: Stable

SMERA believes that the company will continue to maintain a ‘Stable’ outlook over the medium term from its promoter’s extensive industry experience. The outlook may be revised to ‘Positive’ in case of substantial increase in scale of operations and profitability leading to improvement in the financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company reports less accruals due to decline in revenue or profitability levels, or if it undertakes debt funded capex. Any working capital requirement undertaken that weakens the liquidity profile may also entail a ‘Negative’ outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	84.46	61.13	53.26
EBITDA	Rs. Cr.	1.27	(0.71)	1.13
PAT	Rs. Cr.	0.18	0.17	0.16
EBITDA Margin	(%)	1.51	(1.17)	2.13
PAT Margin	(%)	0.21	0.27	0.31
ROCE	(%)	7.39	8.62	7.74
Total Debt/Tangible Net Worth	Times	1.09	1.18	1.12
PBDIT/Interest	Times	1.53	1.43	1.54
Total Debt/PBDIT	Times	5.79	5.52	6.14
Gross Current Assets (Days)	Days	53	81	96

Status of non-cooperation with previous CRA (if applicable): None

Any other information: Not Applicable

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
01-Mar-2017	Cash Credit	Long Term	7.50 (Enhanced from Rs.5.50 Crore)	SMERA B+/Stable (Reaffirmed)
08-Feb-2017	Cash Credit	Long Term	5.50	SMERA B+/Stable (Reaffirmed)
21-Dec-2015	Cash Credit	Long Term	5.50	SMERA B+/Stable (Assigned)

*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	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA B / Stable (Downgraded from SMERA B+/Stable)

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ABOUT SMERA

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