Press Release

MPR REFRACTORIES LIMITED

August 03, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 8.55 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' **(read as ACUITE BB)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 8.55 crore bank facilities of MPR REFRACTORIES LIMITED. The outlook is **'Stable'**.

The reaffirmation of the rating reflects modest scale of revenues, working capital intensive operations and volatile profitability margins; though the revenues have improved by about 50 per cent in FY2018 over FY2017, it's on a low revenue base of about Rs.16.5 crores. However, the ratings continue to reflect MPRRL's healthy financial risk profile and long operational track record of the promoters in the industry.

MPR Refractories Limited (MPRRL) is a Hyderabad based company, incorporated in the year 1987 by Mr. MP Rao. It is engaged in the manufacturing of refractory bricks, monolithic and continuous casting refractory products. The manufacturing facility is located at Bollaram Village, Telangana. The company supplies its products mainly to steel, glass and cement industries. It sells products under the brand name 'MPR'. Its customers are Vizag Steel Plant, Hindalco Industries Limited (Hindalco) and Mishra Dhatu Nigam Limited (MIDHANI, a miniratna-I) among others.

Key Rating Drivers

Strengths

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

  MPRRL was promoted by Mr. MP Rao and his sons Mr. Appayya and Mr. Chandrasekhar Rao. Mr Appayya, Metallurgist is having more than three decades of experience in the refractory industry. Further, Mr. M. Chandrasekhar Rao, Managing Director, is a Mechanical Engineer Graduate with over three decades of experience in the industry. MPRRL's R&D facility is a Department of scientific and Industrial research (DSIR), Government of India recognized unit. MPRPL's long standing presence and quality products have supported in healthy and reputed clientele like Vizag Steel Plant, Hindalco, MIDHANI among others; further, it exports to countries like Iran, Nigeria, Uganda and Georgia. Also to maintain the quality product, it buys key raw materials from Industry major like Rio Tinto, Australia. Acuité believes that MPRRL continues to enjoy the benefit of long operational track record of operations besides healthy clientele.

- **Healthy financial risk profile**

  Financial risk profile of the MPRRL is in line with earlier estimates. Its capital structure is healthy marked by healthy gearing (Debt to Equity), total outside liabilities to total net worth (TOLTNW) and comfortable debt protection metrics. Gearing is healthy at 0.68 times as on 31 March, 2018 as against 0.86 times as on 31 March, 2017. Its networth is at Rs.8.0 crores (provisional) as of March 31, 2018 against Rs.7.5 crores in FY2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 3.72 times and 0.30 times respectively in FY2018 an improvement from the previous levels. TOLTNW is comfortable around 1.31 times as on 31 March, 2018 against 1.44 times in FY2017. Acuité believes that, financial risk profile is expected to be healthy owing to moderate cash accruals, and absence of major debt funded capital plans over the medium term.

Weaknesses

• **Modest scale of operations and volatile profitability margins**

Revenues of the company remained modest despite being in the industry since 1987. The company reported modest revenues of Rs.24.88 crore in FY2018 (Provisional), as against Rs.16.51 crore in FY2017 and Rs.17.83 crore in FY2016. Though the production is not order backed, however basis the established presence and industry trends, it manufactures and keeps it ready the required inventory for sale. The significant growth in revenues in FY2018 is attributed to increase in the product profile besides incremental business from the vintage clients; despite growth in revenues of about 50 per cent in FY2018 on a low revenue base, the revenues over the medium term are expected to be in the range of Rs.28.0 - 35.0 crores. Further, its operating margins are volatile; in FY2016, its operating margins are 11.2 per cent, whereas it increased to 12.4 per cent in FY2017 and declined to 10.4 per cent in FY2018; operating margins are attributed to fluctuations in the raw material prices. Further in FY2018, MPRRL has written off about Rs.1.3 crore of old receivables. Acuité believes that the ability of the company to improve the scale of operations while maintaining operating margins would be the key rating sensitivity factors in the medium

• **Working capital intensive operations**

Operations of the company are working capital intensive marked by high Gross Current Assets (GCA) of 183 days in FY2018, though improved from 263 days in FY2017. High GCA days is on account of high debtor days of around four months in FY2018 which is in line with the ACUITE's estimates. Debtors exceeding six months stood at Rs.1.92 crore as on 31 March, 2018. Inventory days are around two months in FY2018 which improved from the 115 days in FY2017. As a result, its working capital limits have been highly utilized at around 90 percent for the last six months through June 2018. Acuité believes that MRRPL's operations continue to be working capital intensive on account of extended credit terms to customers coupled with moderate inventory management

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MPRRL to arrive at this rating.

Outlook: Stable

ACUITE believes that MPRRL will continue to benefit over the medium term from its promoters' extensive experience and long standing operations in the industry. The outlook may be revised to 'Positive' in case of significant growth in revenues along with stable operating margins. The outlook may be revised to 'Negative' in case of any stretch in working capital cycle, adversely affecting the financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.88	16.51	17.83
EBITDA	Rs. Cr.	2.58	2.05	2.00
PAT	Rs. Cr.	0.53	0.13	0.38
EBITDA Margin	(%)	10.36	12.43	11.22
PAT Margin	(%)	2.12	0.81	2.13
ROCE	(%)	11.08	7.25	9.45
Total Debt/Tangible Net Worth	Times	0.68	0.86	1.00
PBDIT/Interest	Times	3.72	2.31	2.40
Total Debt/PBDIT	Times	2.18	3.10	3.02
Gross Current Assets (Days)	Days	183	263	245

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

None

Any other information

'Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups'

Applicable Criteria

• Default Recognition - https://www.acuite.in/criteria-default.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
• Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-May-2017	Cash Credit	Long Term	INR 5	ACUITE BB / Stable(Reaffirmed)
	Letter of Credit	Short Term	INR 2	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	INR 0.26	ACUITE BB / Stable (Reaffirmed)
	Bills Discounting	Short Term	INR 0.4	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	INR 0.89	ACUITE BB / Stable(Assigned)
22-Jan-2016	Cash Credit	Long Term	INR 5	ACUITE BB / Stable(Assigned)
	Term Loan	Long Term	INR 1.15	ACUITE BB / Stable(Assigned)
	Bills Discounting	Short Term	INR 0.4	ACUITE A4+(Assigned)
	Letter of Credit	Short Term	INR 2	ACUITE A4+(Assigned)

*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	4.50	ACUITE BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	2.65	ACUITE BB / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327	Varsha Bist Manager - Rating Desk Tel: 022-67141160

srihari.adari@acuite.in	rating.desk@acuite.in	

Naveen Papisetty Analyst - Rating Operations Tel: 022-67141148 naveen.papisetty@acuiteratings.in	

About Acuité Ratings & Research:
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