

May 03, 2016

Facilities	Amount (Rs. Crore)	Ratings
<b>Cash Credit</b>	<b>7.50</b>	<b>SMERA BB/Stable (Assigned)</b>
<b>Stand by Line of Credit</b>	<b>0.50</b>	<b>SMERA BB/Stable (Assigned)</b>
<b>Adhoc Limit</b>	<b>0.75</b>	<b>SMERA A4+ (Assigned)</b>
<b>Letter of Credit</b>	<b>0.75</b>	<b>SMERA A4+ (Assigned)</b>
<b>Fund Based (Proposed)</b>	<b>0.47</b>	<b>SMERA BB/Stable (Assigned)</b>

SMERA has assigned rating of '**SMERA BB**' (read as SMERA double B) to the Rs.8.47 crore long term bank facilities and '**SMERA A4+**' (read as SMERA A four plus) to the Rs.1.50 crore short term bank facilities of Madan Udyog Private Limited (MUPL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management, improved profitability and comfortable coverage indicators. However, the ratings are constrained by the stagnancy in revenues, relatively high gearing and working capital intensive operations. The ratings are also constrained by the susceptibility of profitability to volatility in raw material prices in a highly fragmented and competitive tubes and tyres industry.

MUPL, promoted by Mr. S.S. Khandelwal is engaged in the manufacture of jointed and moulded bicycle rubber tubes and tyres. The promoter has experience of around five decades in the line of business and is supported by his son, Mr. Anand Khandelwal, who possesses about four decades of experience in the business.

MUPL's operating profitability improved from 12.90 per cent in FY2013-14 to 15.01 per cent in FY2014-15 due to decline in cost of raw material and commencement of in-house manufacturing of tyres in January 2013. The interest coverage ratio stood at 1.64 times while debt service coverage ratio (DSCR) stood at 1.23 times in FY2014-15.

MUPL has achieved operating income of Rs.27.39 core in FY2014-15 as against Rs.29.84 crore in FY2013-14. For April 2015 to February 2016 (provisional), the company achieved revenue of Rs.25.00 crore. The debt to equity ratio stood at 2.23 times in FY2014-15 as against 2.68 times in FY2013-14. MUPL has working capital intensive operations with elongated working capital cycle of 141 days in FY2015 due to high debtor days at 198 as on March 31, 2015. The profitability of the company is susceptible to volatility in rubber prices. Any significant change in prices would impact company margins.

## Rating Sensitivity Factors

- Scaling up operations and profitability
- Efficient working capital management
- Capital structure and coverage indicators

## Outlook: Stable

SMERA believes MUPL will maintain a stable business profile over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company registers more than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of higher working capital requirements increasing pressure on margins.

## About the Company

MUPL, incorporated in 2010, is a Nagpur-based company promoted by Mr. S.S. Khandelwal. The company is engaged in the manufacture of jointed and moulded bicycle rubber tubes at Sinnar, Nashik.. MUPL, had subcontracted manufacturing of tyres. However, from January 2013, it began manufacturing the same at Ludhiana. The installed capacity stands at 600,000 tyres per annum.

For 2014-15, MUPL reported net profit after tax (PAT) of Rs.0.86 crore on operating income of Rs.27.39 core as against PAT of Rs.0.87 crore on operating income of Rs.29.84 crore. The tangible net worth stood at Rs.5.91 crore as against Rs.5.05 crore in the previous year.

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