

Press Release

Mobile Communication India Private Limited (MCIL)

April 25, 2017

Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs.24.00Cr
Long Term Rating	SMERA BB+/Stable (Upgraded)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating on the Rs.5.00 cr bank facilities to **'SMERA BB+' (read as SMERA double B plus)** from SMERA BB (read as SMERA double B) and reaffirmed the short term rating of **'SMERA A4+' (read as SMERA A four plus)** on the 19.00 cr bank facilities of Mobile Communications India Private Limited (MCIL). The outlook is **'Stable'**.

The rating upgrade factors in the sustained improvement in operating profit margins resulting in significant improvement in debt protection metrics and overall financial risk profile in FY2017 (Provisional). The ratings continue to be supported by the experienced management, long track record of operations and the significant entry barriers in the information technology industry. The ratings are constrained by the modest scale of operations, working capital intensive business and risks emanating from the tender based operations.

Mobile Communications India Private Limited (MCIL) was incorporated in 1992 by Mr. Ravi Kant Gandhi and Mr. Kovid Gandhi. The company provides IT, wireless communications, close circuit TV surveillance infrastructure and other technology solutions on turnkey basis to government organisations including the police, paramilitary forces and defence organisations. MCIL is also a national distributor of Motorola Solutions in India.

MCIL has diversified its market presence by venturing into petro engineering solutions. The company manufactures vapour recovery units for marquee clients including Reliance Industries and Indian Oil Tanks.

List of key rating drivers and their detailed description

Strengths:

Experienced promoters and longstanding relationship with reputed clients: MCIL was promoted by Mr. Ravi Kant Gandhi and Mr. Kovid Gandhi. The promoters have over three decades of experience in the electronics and communication solutions business in India. MCIL is expected to benefit significantly from its promoters' longstanding relationship with suppliers and customers including Motorola Solutions.

Significant improvement in net cash accruals and liquidity position: MCIL reported significant increase in Net Cash Accruals (NCA) to Rs. 2.82 cr in FY2017 (Prov.) as against Rs. 1.23 cr in FY2016. The increase in NCA is mainly due to substantial rise in operating income arising out of a higher bid conversion ratio and timely completion of projects coupled with increase in operating profit margin to 5.43 per cent in FY2017 (Prov.) from 4.50 per cent in FY2016.

The healthy accruals generated by MCIL enabled the company to maintain adequate headroom in its bank limits. The average bank limit utilisation of the company stood at ~40 per cent for the six months ended March, 2017.

SMERA believes that MCIL's ability to maintain sustained growth in its operating cash flows vis-à-vis its total outstanding debt levels shall be critical towards maintaining a healthy credit risk profile.

Conservative capital structure and comfortable debt protection metrics: MCIL reported prudent financial risk profile marked by low gearing of 0.28 times as on March 31, 2017 (Prov.) as compared to 0.67 times as on March 31, 2016. The improvement in gearing is primarily on account of significant increase in networth driven by healthy internal accruals and decline in total debt of the company. The networth of the company stood at Rs. 18.76 cr on 31 March, 2017 (Prov.) as against Rs. 16.61 cr on 31 March, 2016 while the total debt declined to Rs. 5.23 cr on 31 March, 2017 (Prov.) vis-à-vis Rs. 11.14 cr as on 31 March, 2016.

The conservative gearing of the company coupled with improvement in profitability margins resulted in a healthy interest coverage ratio of 2.43 times in FY2017 (prov.) as against 1.35 times in FY2016. The company also continued to report a healthy debt service coverage ratio of 2.45 times in FY2017 (Prov.) vis-à-vis 1.65 times in FY2016.

SMERA believes that MCIL's debt protection metrics will continue to remain comfortable over the medium term driven by its ability to manage its working capital requirements and healthy cash accruals.

Weaknesses:

Modest scale of operations in a competitive industry: MCIL's rating continues to reflect its modest scale of operations. The company reported operating income of Rs. 84.70 cr in FY2017 (Prov.) as against Rs. 55.28 cr in FY2016. MCIL operates in a highly competitive industry wherein lower than expected bid conversion ratio can adversely affect the operating cash flows.

SMERA believes that MCIL's credit risk profile shall be dependent on its ability to sustainably grow its overall scale of operations over the near to medium term.

Working capital intensive operations: MCIL's working capital cycle is dependent on its ability to ensure timely collection of receivables from government departments. The company reported significant accumulation of debtors in FY2017 (Prov.) resulting in an increase in the average collection period to 132 days from 55 days in FY2016. Consequently, the Gross Current Asset (GCA) days of the company also increased to 225 days in FY2017 (Prov.) as against 200 days in FY2016.

Notwithstanding the working capital intensive nature of operations, the company reported low bank limit utilisation primarily on account of the high payment period to the company's creditors. The creditor days of the company also increased to 154 days in FY2017 (Provisional) as compared to 46 days in FY2015.

SMERA believes that MCIL's credit risk profile shall remain dependent on its ability to manage its working capital requirements over the near to medium term.

Regulatory risks inherent in the tender driven business: MCIL is exposed to competitive and regulatory risks associated with the tender based business. The company's operating performance is susceptible to the regulatory environment surrounding the defence and para military procurement standards and regulations. SMERA believes that any unfavourable change in the technical or financial norms pertaining to the award of defence/para military work orders can result in significant decline in MCIL's bid conversion ratio, thereby affecting its operating cash flows.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Service Sector- <https://www.smera.in/criteria-services.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that MCIL will maintain a stable outlook over the medium term on account of its experienced management, long track-record of operations and conservative financial risk profile. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenue and operating income while maintaining stable profitability and improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue or significant deterioration in the liquidity position.

About the Rated Entity

In FY2015-16, MCIL reported Profit after Tax (PAT) of Rs.2.16 cr on operating income of Rs.84.70 cr in FY2016-17 (provisional) as compared to PAT of 0.82 cr on operating income of Rs. 55.28 cr in FY2015-16. The networth stood at Rs.18.76 cr in FY2016-17 (provisional) as compared to Rs.16.61 cr in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): CRISIL Limited in its press release dated 07th December, 2016 had inter-alia mentioned the following: 'CRISIL has suspended its ratings on the bank facilities of Mobile Communications India Private Limited (MCIPL). The suspension of ratings is on account of non-cooperation by MCIPL with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, MCIPL is yet to provide adequate information to enable CRISIL to assess MCIPL's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information.'

Any other information: None

Rating History for the last three years:

Name of Instrument /Facilities	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	5.00 (Enhanced from 2.00)	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)	13 June 2016	SMERA BB /Stable (Assigned)	-	-	-	-
Bank Guarantee*	ST	19.00 (Enhanced from 17.00)	SMERA A4+ (Reaffirmed)	13 June 2016	SMERA A4+ (Assigned)	-	-	-	-

* Sublimit of 15.00 crore letter of credit

***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	N.A	N.A	N.A	5.00 (enhanced from 2.00)	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Bank Guarantee*	N.A	N.A	N.A	19.00 (Enhanced from 17.00)	SMERA A4+ (Reaffirmed)

* Sublimit of 15.00 crore letter of credit

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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