

Press Release

Mobile Communications India Private Limited

July 20, 2018



Rating Reaffirmed

| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 24.00 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 plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.24.00 crore bank facilities of Mobile Communications India Private Limited. The outlook is '**Stable**'.

The New-Delhi based, Mobile Communications India Private Limited (MCIL) was incorporated in 1992 by Mr. Ravi Kant Gandhi with pan-India reach. Mr. Kovid Gandhi joined the company in 2010 and together they are promoting the company. MCIL is a national distributor of Motorola Solutions and Elbit Systems in India which is into wireless radios and accessories. The company provides IT, wireless communications, close circuit TV surveillance infrastructure and other technology solutions on turnkey basis to government organizations such as police, paramilitary forces and defense organisations. MCIL has diversified its market presence by venturing into petro engineering solutions. The company manufactures vapour recovery units for marquee clients including Reliance Industries Limited and Indian Oil Tanks.

Key Rating Drivers

Strengths

- **Experienced promoters and longstanding relationship Motorola Solutions India**

MCIL is 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 procures from Motorola Solutions India (MSI) which is into wireless radios and accessories. The promoters have been associated with MSI since 1992 and hence have established relations with the supplier. The strong supplier relations with MSI support the business sustainability of the company. MCIL caters to various government organisations including police, paramilitary forces and receives majority of the orders from Ministry of Home Affairs. Acuité believes MCIL will continue to benefit over the medium term from its longstanding association with its key supplier as well as personal ties.

- **Comfortable financial risk profile and healthy order book position**

MCIL reported prudent financial risk profile marked by low gearing of 0.06 times as on March 31, 2018 (Provisional) as compared to 0.29 times as on March 31, 2017. The improvement in gearing is primarily on account of increase in net worth and decline in total debt of the company. The net worth of the company stood at Rs.19.44 crore on March 31, 2018 (Provisional) as compared to Rs.18.61 crore on March 31, 2017 while the total debt declined to Rs.1.10 crore on March 31, 2018 (Provisional) vis-à-vis Rs.5.35 crore as on March 31, 2017. The interest coverage ratio stood at 3.34 times in FY2018 (Provisional) as against 3.72 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 2.21 times in FY2018 (Provisional) as against 2.87 times in FY2017. MCIL has healthy order book which is expected to be executed by the end of FY2019.

Weaknesses

- **Modest scale of operations in a competitive industry**

MCIL reported operating income of Rs.48.88 crore in FY2018 (Provisional) as against Rs.81.50 crore in FY2017. The revenue is declined on account of unexecuted orders due to change in the tax structure (GST) on 01 April, 2017. MCIL operates in a highly competitive industry wherein lower than expected bid conversion ratio can adversely affect the operating cash flows. Acuité believes that MCIL's credit risk profile will 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 FY2018 (Provisional) resulting in an increase in the average collection period to 143 days from 85 days in FY2017. Consequently, the Gross Current Assets (GCA) also increased to 306 days in FY2018 (Provisional) as against 152 days in FY2017. The creditor days has increased to 294 days in FY2018 (Provisional) as compared to 164 days in FY2017. Acuité believes that MCIL's credit risk profile will remain dependent on its ability to manage its working capital requirements over the near to medium term.

- **Regulatory risks inherent in 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 defense and para-military procurement standards and regulations. Acuité believes that any unfavorable change in the technical or financial norms pertaining to the award of defense/para-military work orders can result in significant decline in MCIL's bid conversion ratio, thereby affecting its operating cash flows.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Mobile Communications India Private Limited to arrive at this rating.

Outlook: Stable

Acuité believes that MCIL will maintain '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 - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 48.88 | 81.50 | 53.89 |
| EBITDA | Rs. Cr. | 1.42 | 3.59 | 2.47 |
| PAT | Rs. Cr. | 1.00 | 2.02 | 0.82 |
| EBITDA Margin | (%) | 2.91 | 4.41 | 4.58 |
| PAT Margin | (%) | 2.04 | 2.47 | 1.52 |
| ROCE | (%) | 9.85 | 16.61 | 22.35 |
| Total Debt/Tangible Net Worth | Times | 0.06 | 0.29 | 0.67 |
| PBDIT/Interest | Times | 3.34 | 3.72 | 1.89 |
| Total Debt/PBDIT | Times | 0.45 | 1.16 | 3.21 |
| Gross Current Assets (Days) | Days | 306 | 152 | 120 |

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

None

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.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 |
|-------------|---------------------------------|------------|--------------------------------|--|
| 25-Apr-2017 | Cash Credit | Long Term | 5.00 (enhanced from 2.00) | ACUITE BB+ / Stable (Upgraded from BB/Stable) |
| | Bank Guarantee* | Short Term | 19.00 (enhanced from 17.00) | ACUITE A4+ (Reaffirmed) |
| 13-Jun-2016 | Cash Credit | Long Term | 2.00 | ACUITE BB / Stable (Assigned) |
| | Bank Guarantee* | Short Term | 17.00 | ACUITE 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. Cr.) | Ratings/Outlook |
|-------------------------------------|------------------|----------------|----------------|-----------------------------|----------------------------|
| Cash credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BB+ (Reaffirmed) |
| Bank guarantee/Letter of Guarantee* | Not Applicable | Not Applicable | Not Applicable | 19.00 | ACUITE A4+ (Reaffirmed) |

* Sublimit of 15.00 crore letter of credit

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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