Acuite RATINGS & RESEARCH

Press Release

Mobile Communications (India) Private Limited

June 03, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** from **'ACUITE BB+'(read as ACUITE double B plus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+'(read as ACUITE A four plus)** to the Rs. 30.00 crore bank facilities of Mobile Communications (India) Private Limited (MCIL). The outlook is **'Stable'**.

The upgrade in the rating is in the view of improvement in operating income in FY2019 (Provisional), moderate debt protection measures and increasing no. of orders from the newly started vapor recovery segment, leading to improvement in financial risk profile.

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.

Analytical Approach

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

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.

- **Moderate financial risk profile**
  MCIPL's financial risk profile is marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth increased to Rs.19.00 crore as on 31 March, 2018 as against Rs.18.61 crore in the previous year on account of stable profitability leading to higher accretion to reserves. The company's gearing is estimated to be low at 0.06 times as on 31 March, 2018 as against 0.29 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.67 times as on March 31, 2016. The total debt of Rs.1.15 crore consists of long term debt of Rs.0.69 crore, and Rs.0.46 crore of short term debt obligations. The moderate profitability levels has resulted in moderate net cash accruals of Rs.1.51 crore during 2016-18, while the debt levels have remained low at around Rs.1.15 crore during the same period, leading to moderate debt protection measures. The interest coverage ratio stood at

2.55 times in FY18 as against 3.72 times in the previous year. NCA/TD ratio stood 1.32 times in FY18. Acuité believes that MCIL'S financial risk profile is expected to improve on the back of steady improvement in scale of operations, stable operating profitability and expected orders from the newly started vapor recovery system segment over the near to medium term.

Weaknesses

• **Modest scale of operations in a competitive industry**
MCIL reported operating income of Rs.52.89 crore in FY2018 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. However MCIL has achieved revenue of Rs. 123.04 crore as on March, 2019 (Provisional) and also MCIL entered into the petro engineering industry, manufacturing vapour recovery units with orders worth Rs. 26.50 crore from IOCL. 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 resulting in an increase in the average collection period to 141 days from 85 days in FY2017. Consequently, the Gross Current Assets (GCA) also increased to 265 days in FY2018 as against 152 days in FY2017. However, debtors and inventory stood at 84 days and 29 days respectively as on March 2019 (Provisional). The creditor days has increased to 294 days in FY2018 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.

Liquidity Position

MCIPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.1.20 to Rs. 2.40 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of ~Rs.0.05 to Rs. 0.20 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 3.50 - Rs.4.20 crore during 2019-21. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 265 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.5.68 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.46 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual while the maturing debt obligations will be in the range of ~Rs.0.12 to Rs. 0.22 crore .

Outlook: Stable

Acuité believes that the outlook on MCIPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	52.89	81.50	53.89
EBITDA	Rs. Cr.	1.94	3.59	2.47

PAT	Rs. Cr.	0.52	2.02	0.82
EBITDA Margin	(%)	3.67	4.41	4.58
PAT Margin	(%)	0.99	2.47	1.52
ROCE	(%)	9.49	16.61	22.35
Total Debt/Tangible Net Worth	Times	0.06	0.29	0.67
PBDIT/Interest	Times	2.55	3.72	1.89
Total Debt/PBDIT	Times	0.38	1.16	3.21
Gross Current Assets (Days)	Days	265	152	120

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

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Trading Entities -https://www.acuite.in/view-rating-criteria-6.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
20-July-2018	Cash Credit	Long Term	5.00	ACUITE BB+/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	19.00	ACUITE A4 (Reaffirmed)
25-April-2017	Cash Credit	Long Term	5.00	ACUITE BB+/ Stable (Upgraded)
	Bank Guarantee	Short Term	19.00	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)

***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	6.00 (enhanced from 5.00)	ACUITE BBB- / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	24.00 (enhanced from 19.00)	ACUITE A3 (Upgraded)

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About Acuité Ratings & Research:
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