Press Release

Matangi Rubber Private Limited

September 10, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 14.90 crores
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and the short term rating of '**ACUITE A3**' **(read as ACUITE A three)** on the Rs. 14.90 crores bank facilities of Matangi Rubber Private Limited (MCPL). The outlook is **'Stable'**.

Delhi based, MRPL was incorporated in 2004 by Mr. Mohit Gupta and family. The company is engaged in manufacturing tyre flaps and tubes from natural rubber. These tyre flaps mainly find their use in commercial vehicles like trucks, buses, JCB and all heavy utility vehicles. The company operations are run through two manufacturing facilities located in Dehradun and Chennai with the installed capacity of 2.70 million flaps per annum and 1.20 million flaps per annum respectively.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and stable scale of operations**

  MRPL is promoted by Mr. Mohit Gupta, Mrs. Manju Gupta and Mrs. Radhika Gupta. The promoters have a combined experience over 50 years in the automobile ancillary industry. The top management of the company is aided by an equally experienced second line of management personnel. The company has been able to establish a long and healthy relationship with its customers and suppliers owing to the promoter's rich experience and the long track record of operations of over 15 years as evident by a 12 years long relationship with J K Tyres & Industry Limited and Cavendish Industries Limited who are its top customers. Further MRPL has been able to sustain its scale of operations year on year backed by repeated orders by its customers as seen by the turnover of Rs. 60.41 crores as on 31st March 2020 (Provisional) as against Rs. 61.70 crores in the previous year. The current year revenues of MRPL stool at ~Rs. 17.00 crores till August with an order book of Rs. 10.00 crores for the coming 2 months.

  Acuité believes MRPL will continue to benefit over the medium term from its longstanding association with its key supplier as well as customers.

- **Moderate financial risk profile**

  MRPL's financial risk profile is marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth increased to Rs.25.82 crore as on 31 March, 2020 (Provisional) as against Rs.23.88 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 0.52 times as on 31 March, 2020 (Provisional) as against 0.55 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.64 times as on March 31, 2018. The total debt of Rs.13.38 crore consists of long term debt of Rs.3.40 crore, and Rs.9.98 crore of short term debt obligations as on 31st March 2020 (Provisional). The moderate profitability levels have resulted in moderate net cash accruals of Rs.2.50 crore during FY2020 (Provisional). The interest coverage ratio stood at 2.13 times in FY2020 (Provisional) as against 2.02 times in the previous year. NCA/TD ratio stood 0.19 times in FY2020 (Provisional). Acuité believes that MRPL'S financial risk profile is expected to remain stable over the near to medium term due to no prospective capital expenditure in the coming years and repayment of long term debt.

Weaknesses

- **Working Capital Intensive Operations**
  MRPL's working capital cycle is intensive in nature, owing to large levels of inventory maintained by the company. The Gross Current Asset (GCA) days of the company are around 263 days in FY2020 (Provisional) as compared to 245 days in the previous year. The GCA days are dominated by the prolonged inventory holding periods as the same stood at 140 days for FY2020 (Provisional) as compared to 112 days in FY2019 however the surge can be account for by considering the delay in the delivery of major orders on year-end due to the advent of Covid-19 pandemic.

  The company reported a slight decline of debtor levels in FY2020 (Provisional) resulting in an average collection period to 75 days from 82 days in FY2019. Further, the creditor collection period stood at 119 days as on March 2020 (Provisional). However, the average bank limit utilization of the company for the last 6 month period ending on 30th August 2020 stood high at around 96.66%. Acuité believes that MRPL's credit risk profile will remain dependent on its ability to manage its working capital requirements over the near to medium term.

- **Customer Concentration Risk and downturn in the Automobile Industry**
  MRPL faces customer concentration risk as around 84 percent of the company's total sales in FY2020 was generated via three customers, namely Cavendish Industries Limited, J K Tyres & Industry Limited and Pioneer Trading Corporation.

  Further, the company operates in the automobile ancillary industry; however, the Indian automotive industry has been under stress over the past few months. The onset of Covid-19 in India will have a negative impact on the automotive industry. It is estimated that there will be an overall revenue impact of at least $1.5 -2.0 billion per month across the industry.

Rating Sensitivity

- Significant improvement in the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile and improvement in working capital intensity.
- Deterioration in working capital or any major debt-funded capex

Material Covenants

None

Liquidity position: Adequate

MCPL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.1.13 to Rs. 1.48 crore during the last three years through 2018-20 (Provisional), while its maturing debt obligations were in the range of ~Rs.0.19 to Rs. 1.36 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 3.74 - Rs.4.26 crore during 2021-23. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 253 in FY2020 (Provisional) however, the same was on account of a buildup of inventory levels due to the COVID-19 pandemic. The company maintains unencumbered cash and bank balances of Rs.4.61 crore as on March 31, FY2020 (Provisional). The current ratio of the company stood healthy at 4.24 times as on March 31, FY2020 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accrual while the maturing debt obligations will be in the range of ~Rs.0.25 to Rs. 0.08 crore.

Outlook: Stable

Acuité believes that the outlook on MCPL'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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	60.41	61.70
PAT	Rs. Cr.	1.45	1.37
PAT Margin	(%)	2.40	2.22
Total Debt/Tangible Net Worth	Times	0.52	0.55
PBDIT/Interest	Times	2.13	2.02

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-June-2019	Cash Credit	Long Term	6.00 (Revised from Rs. 9.50 Cr.)	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Guarantee	Short Term	5.00 (Revised from Rs. 4.00 Cr.)	ACUITE A3 (Reaffirmed)
	Bill Discounting	Short Term	3.90	ACUITE A3 (Assigned)
09-Apr-2018	Cash Credit	Long Term	9.50 (Revised from Rs. 7.90 Cr.)	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Proposed bank facility	Long Term	0.40 (Revised from Rs. 2.00 Cr.)	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Letter of Credit	Short Term	4.00 (Revised from Rs. 2.00 Cr.)	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed bank facility	Short Term	1.00	ACUITE A3 (Upgraded from ACUITE A4+)
15-Nov-2017	Cash Credit	Long Term	7.90	ACUITE BB+ Issuer not cooperating*
	Proposed Cash Credit	Long Term	1.00	ACUITE BB+ Issuer not cooperating*
	Proposed bank facility	Long Term	1.00	ACUITE BB+ Issuer not cooperating*

	Letter of Credit	Short Term	2.00	ACUITE A4+ Issuer not cooperating*
	Proposed bank facility	Short Term	1.00	ACUITE A4+ Issuer not cooperating*

*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	8.00 (Revised from Rs. 6.00 Cr.)	ACUITE BBB-/ Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	1.90	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:
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