

Press Release

Matangi Rubber Private Limited

November 12, 2021

Rating Reaffirmed



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 16.50 crore (Enhanced from Rs. 14.90 Cr). |
| Long Term Rating | ACUITE BBB-/ Stable (Reaffirmed) |
| Short Term Rating | ACUITE A3 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite 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. 16.50 crore bank facilities of Matangi Rubber Private Limited (MRPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation reflects sustained operations and profitability for FY2021, moderate financial risk profile, adequate liquidity position, extensive experience of promoters and reputed clientele. Also the rating factors in comfort derived by order book position of Rs. 53.74 Cr as on June 2021. Moreover, the firm has booked revenue of Rs. 20.73 Cr as on June 2021. On the contrary, the firm operates in working capital intensive industry and the profitability is susceptible to fluctuations in raw material prices.

About the company

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

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

Key Rating Drivers

Strengths

- Experienced promoters and longstanding relationship with reputed customers**

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. 59.25 crores as on 31st March 2021 (Provisional) as against Rs. 57.99 crores in the previous year. The current year revenues of MRPL stood at ~Rs. 20.79 crores as of June 2021 with an order book position of Rs. 53.74 crores as of 30th June 2021.

Acuite 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**

The financial risk profile of company stood moderate marked by moderate net worth, comfortable gearing and healthy coverage indicators. The tangible net worth of MRPL stood moderate at around Rs. 28.01 crores as on 31 March, 2021 (Provisional) as against Rs. 25.85 crores as on 31 March, 2020 on the back of healthy accretion to reserves, which in turn is a result of healthy profitability levels maintained by the company over

the years. The company has followed a conservative financial policy in the past, which is reflected by current gearing (debt-to-equity) of 0.89 times as on 31 March, 2021 (Provisional) and 0.69 times in the previous year. The total outside liabilities to total net worth (TOL/TNW) ratio stands at 1.35 times as on 31 March, 2021 (Provisional) and 1.32 times as on 31 March, 2020. The total debt of Rs. 24.91 crore as on 31 March, 2021 (Provisional), consists of term loans of Rs. 5.81 crores, working capital borrowings of Rs. 16.80 crores, Rs. 1.35 crores of unsecured loans from directors and Rs. 0.95 crores of current portion of long term debt. The Debt protection metrics of the company have remained healthy marked by the interest coverage ratio of 2.95 times as on 31st March 2021 (Provisional) as against 2.34 times in the previous year and the debt service coverage ratio of 2.55 times as on 31st March 2021 (Provisional) compared to 2.17 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.15 times for FY2021 (Provisional). The company reported adequate net cash accruals (NCA) of ~Rs. 3.61 crore in FY2021 and Rs. 3.45 crores in FY2020.

Acuite believes that the company will be able to sustain its existing financial risk profile in near to medium term backed by established presence in the Industry, extensive experience of promoters, healthy net cash accruals to support any major debt-funded capital expenditure.

Weaknesses

- Intensive working capital operations**

Matangi Rubber Private Limited operates in working capital intensive nature of operations marked by gross current assets (GCA) of 338 days for FY2021 (Prov.) as against 295 days for FY2020. The increase in GCA days is mainly due to increase in debtors' days from 85 days as on 31 March 2020 to 102 days as on 31 March 2021 (Prov.) the surge was on account of disruption due to Covid-19 pandemic. Further, Inventory days of 134 days as on 31 March 2021 (Prov.) same as previous year. Current Ratio stood at 1.83 times as on 31 March 2021 and the fund-based working capital limits were utilized at an average of ~93.26 percent in the last six months ending June 2021.

Acuite believes that the working capital requirements will continue to remain intensive over the medium term

- Susceptibility of profitability to fluctuations in raw material prices and Customer Concentration Risk**

Operating margins of the company are susceptible to changes in natural rubber and carbon black prices; which are highly volatile. Any abrupt change in raw material prices can lead to distortion in market prices and affect the profitability of players. Also, MRPL faces customer concentration risk as around 90 percent of the company's total sales in FY2021 was generated via three customers, namely Cavendish Industries Limited, J K Tyres & Industry Limited and Pioneer Trading Corporation.

Rating Sensitivity

- Sustained growth in operating performance with improvement in profitability, sustenance of the comfortable financial risk profile
- Slowdown in industry leading to inventory pile up.

Liquidity position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 3.61 crore for FY2021 (Prov.) as against Rs. 1.07 crore of repayment obligations for the same period. The company has unencumbered cash and bank balances of Rs. 0.70 crore as on 31st March 2021 (Prov.). Also, Gross current assets (GCA) stood high at 338 days for FY2021 (Prov.) as against 295 days for FY2020. Further, the fund-based working capital limits are utilized at an average of ~93.36 per cent in the last six months ending June 2021. Therefore, there are enough net cash accruals available to utilize more funds if required to support incremental requirements.

Outlook: Stable

Acuite believes that the outlook on MRPL'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 | FY21 (Prov.) | FY20 (Actual) |
|------------------|---------|--------------|---------------|
| Operating Income | Rs. Cr. | 59.25 | 57.99 |
| PAT | Rs. Cr. | 2.17 | 1.97 |
| PAT Margin | (%) | 3.66 | 3.40 |

| | | | |
|-------------------------------|-------|------|------|
| Total Debt/Tangible Net Worth | Times | 0.89 | 0.69 |
| PBDIT/Interest | Times | 2.95 | 2.34 |

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

None

Any other information

None

Material Covenant

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|--------------|---------------------------------|------------|-----------------|--|
| 10-Sep-2020 | Cash Credit | Long term | 8.00 | ACUITE BBB-/Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A3 (Reaffirmed) |
| | Bill Discounting | Short Term | 1.90 | ACUITE A3 (Reaffirmed) |
| 25-June-2019 | Cash Credit | Long term | 6.00 | ACUITE BBB-/Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 5.00 | ACUITE A3 (Reaffirmed) |
| | Bill Discounting | Short Term | 3.90 | ACUITE A3 (Assigned) |
| 09-Apr-2018 | Cash Credit | Long term | 9.50 | ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable) |
| | Proposed bank facility | Long term | 0.40 | ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable) |
| | Letter of Credit | Short Term | 4.00 | ACUITE A3 (Upgraded from ACUITE A4+) |
| | Proposed bank facility | Short Term | 1.00 | ACUITE A3 (Upgraded from ACUITE A4+) |

***Annexure – Details of instruments rated**

| Lender Name | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|-------------|------------------------|------------------|---------------|---------------|-------------------------------|---------------------------------|
| ICICI Bank | Cash Credit | Not Available | Not Available | Not Available | 12.00 | ACUITE BBB-/Stable (Reaffirmed) |
| ICICI Bank | Letter of credit | Not Available | Not Available | Not Available | 4.50 | ACUITE A3 (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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