

Press Release

Mailam India Limited

May 08, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) on the Rs. 10.00 crore bank facilities of Mailam India Limited. The outlook is '**Stable**'.

Mailam India Limited (MIL) was promoted by Mr. M. Sivagurunathan, Mr. R. Venkataraman, Mr. Ramaswamy Rengarajan and others. The company is led by Mr. Ramaswamy Rengarajan, Managing Director, who possesses more than three decades of experience in the electrical equipments industry. MIL is engaged in the manufacturing of welding consumables such as electrodes, flux cored wires and wear plates. The company has two units at Pondicherry with production capacity of 6000 metric tonnes per annum. The company procures raw material such as mild steel rods, mild steel strips, ferro alloys, stainless steel wires from Jindal Steel, Tata Steel among others. MIL caters to reputed clients such as Bharat Heavy Electricals Limited (BHEL), Hindustan Motors, Larsen & Toubro Limited to name a few.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

MIL was incorporated in 1983 and is led by Mr. Ramaswamy Rengarajan (Managing Director) who possesses more than three decades of experience in the electrical equipments industry.

- **Healthy financial risk profile**

The company has a healthy financial risk profile marked by net worth of Rs. 20.23 cr as on March 31, 2016 compared to Rs. 19.65 cr as on March 31, 2015. The gearing (Debt-Equity Ratio) stood at 0.22 times as on 31st March, 2016 compared to 0.14 times as on 31st March, 2015. The coverage indicators are healthy and stood at 5.47 per cent in FY2016.

- **Improvement in profit margin**

The operating margin improved to 6.17 per cent in FY2015-16 as compared to 5.42 per cent in FY2014-15 on account of decline in raw material prices during the year. The net profit margin improved to 2.10 per cent in FY2015-16 from 1.87 per cent in FY2014-15. The RoCE stood at 8.60 per cent in FY2016 as against 7.89 per cent in FY2015.

- **Reputed customer base**

MIL has a reputed client base. The major customers are Bharat Heavy Electricals Limited (BHEL), Hindustan Motors, Larsen & Toubro Limited, H.M.T. Limited, Neyveli Lignite Corporation Limited among others. The company also caters to shipping companies such as Hindustan Shipyard Limited and Cochin Shipyard Limited. The company has long standing relations (more than two decades) with its customers.

Weaknesses

• Moderate scale of operations

The operations are on a moderate scale despite the company being in the electrical equipment industry for the last 33 years. The company achieved operating income of Rs. 44.63 cr in FY2015-16 as compared to Rs.45.69 cr in FY2014-15. The company achieved revenue of ~Rs. 37.00 cr in FY2016-17. The revenues declined due to unfavourable market conditions and crisis in the steel industry. Further, MIL operates in a highly fragmented and competitive industry with large numbers of organised and unorganised players which further intensifies competition.

• Working capital intensive operations

The operations are working capital intensive marked by Gross Current Assets (GCAs) of 221 days for FY2016 as against 229 days for FY2015. This is on account of high debtor of 100 days for FY2016 (PY: 97 days). The debtors outstanding for more than six months stood at Rs. 8.69 cr as on March 31, 2016. The average cash credit utilisation for six months ended March 2017 stood at ~80.13 percent.

• Profitability margins are susceptible to fluctuations in raw material prices

MIL procures raw materials such as mild steel rods, mild steel strips, ferro alloys, stainless steel wires which contribute ~70.00 percent of the manufacturing cost. The prices of the same are highly volatile thus the profitability margins are susceptible to fluctuations in raw material prices. MIL generates ~20-25 revenue from exports. The company exports to Korea, Australia, and USA which is unhedged.

Analytical Approach

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

Outlook: Stable

SMERA believes that MIL will maintain a stable outlook over the medium term on account of its experienced management and established operational track record of operation. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue, improvement in the financial risk profile and liquidity position while maintaining profitability margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenue and profitability, or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, MIL reported profit after tax (PAT) of Rs. 0.94 cr on operating income of Rs. 44.63 cr as compared with PAT of Rs. 0.86 cr on operating income of Rs. 45.69 cr in the previous year. The net worth stood at Rs. 20.23 cr as on March 31, 2016 compared to net worth of Rs. 19.65 cr in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	10.00	SMERA BB / Stable

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ABOUT SMERA

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