

## Press Release

### M P M Private Limited

16 September, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 9.00 Cr.
<b>Long Term Rating</b>	SMERA BBB- / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 9.00 crore bank facilities of M P M Private Limited (MPM). The outlook is '**Stable**'.

MPM, a Nagpur-based proprietorship firm established in 1984 was converted to private limited in 1996. Promoted by Mr. Deepak Chowdhary and Mrs. Neena Chowdhary, the company is engaged in the manufacturing and trading of foundry consumables and additives for the ferrous metal casting industry. The products find application in preparation of moulds and core in the casting industry which in turn caters to auto component manufacturers. MPM has three manufacturing units at Nagpur (Maharashtra) with total installed capacity of 36,000 MTPA as on 31 March, 2017. Over the years, MPM has established various brands including Lustron, Lustrol and LACLCA and markets its products through direct sales.

### Key Rating Drivers

#### Strengths

- **Experienced promoters and established track record of operations**

The MPM group is engaged in the aforementioned business since over three decades. The promoters, Mr. Deepak Chowdhary and Mrs. Neena Chowdhary have over three decades of experience in the said line of business. SMERA believes that the experience of the management and established position of the company will continue to help maintain relations with customers and suppliers.

- **Growth in revenues and healthy profitability**

MPM's operating income stood at Rs.102.15 crore in FY2017 as compared to Rs.95.59 crore in FY2016 and Rs.86.59 crore in FY2015. The rise in revenue is on account of increase in orders from existing customers and addition of new customers. Further, for Q1FY2018, operating income stood at Rs.28.00 crore. The operating margins (EBIDTA) stood at 10.50 percent in FY2017 as against 9.84 percent in FY2016 and 8.28 percent in FY2015. The consistent improvement in EBITDA margins is on account of decline in raw material (mainly ferro silicon, graphite, and coking coal) cost and employee cost as a percentage of sales. PAT margins stood at 3.62 percent in FY2017 as compared to 4.19 percent in FY2016.

- **Healthy financial risk profile**

MPM's financial risk profile is healthy marked by net worth of Rs.20.82 crore as on 31 March 2017. The gearing (debt to equity ratio) is low and stood at 0.79 times as on 31 March 2017 as compared to 1.22 times as on 31 March 2016. The total debt of Rs.16.52 crore mainly includes working capital loans to the tune of Rs.15.66 crore as on 31 March 2017. The Interest coverage ratio (ICR) is healthy and stood at

3.14 times for FY2017 as compared to 2.62 times for FY2016. The NCA to TD improved from 0.24 times in FY2016 to 0.27 times in FY2017.

### Weaknesses

- **Moderate working capital intensity**

MPM's working capital operations are moderately working capital intensive with Gross Current Assets (GCAs) of 132 (PY: 140 days) on account of moderate debtor and inventory levels of 84 and 48 days respectively in FY2017. Further, the average utilisation of working capital limits has been ~90 percent for the last six months ended August 2017.

- **On-going capital expenditure in the parent company**

Plans are on to increase installed manufacturing capacity of the Nagpur plant of MPM from 3000 MT/month to 4000 MT/month. The total cost is ~Rs.8.00 crore to be funded by a term loan of Rs.5.40 crore and Rs. 2.60 crore from internal accruals and promoter's funds. As indicated by the management, the project work is already under way and expected to be completed by Jan, 2018. Further, in the long run, inclusion of automation process will reduce operating expenses which in turn will improve the operating margins. Thus, timely execution, commencement and stabilisation of the project, sustainable growth in revenues while improving profitability margins and impact on the financial risk profile will remain a key rating sensitivity.

- **Profitability susceptible to volatility in raw material prices and foreign exchange fluctuation risk**

MPM's operating profitability is susceptible to volatility in raw material prices (mainly Ferro silicon, graphite, coking coal) which are procured locally and also being imported from countries mainly China, Singapore and USA to name a few. Though there is forward cover hedge to an extent, the company is exposed to forex risk for its un-hedged imports and exports.

- **Competitive and fragmented iron and steel industry**

The company is operates in the iron and steel industry. The sector is marked by the presence of several mid to big size players. The company faces intense competition from other players in the sector.

### Analytical Approach

SMERA has considered the consolidated business and financial risk profile of MPM Private Limited and its subsidiaries MPM Durran Refracoats Private Limited and MPM GTP Schafer Private Limited to arrive at the rating. Together these entities are referred to as the MPM Group.

### Outlook: Stable

SMERA believes that MPM's outlook will remain stable and the company will benefit over the medium term from to its experienced management. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues, profitability while improving working capital cycle and financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or higher than envisaged debt funded capex or working capital requirements deteriorating financial risk profile and liquidity position.

### About the Rated Entity - Key Financials

For FY2016-17, the MPM group registered profit after tax (PAT) of Rs.3.72 crore on operating income of Rs.102.15 crore as against net profit after tax of Rs.4.02 crore on operating income of Rs.95.59 crore in the previous year. The net worth stood at Rs.20.82 crore as on 31 March 2017 as compared to Rs.17.43 crore as on 31 March 2016.

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

Not Applicable

### Any other information

Not Available

### 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB- / Stable

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### ABOUT SMERA

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