

Press Release

M P M Private Limited

08 November, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.40.00 Cr
Long Term Rating	SMERA BBB-/Stable (Reaffirmed)
Short Term Rating	SMERA A3 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 40.00 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 molds and core in the casting industry which in turn cater 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 brands including Lustron, Lustrol and LACLCA and markets its products through direct sales.

List of key rating drivers and their detailed description

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 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 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, the operating income stood at Rs.28.00 crore. The operating margins (EBIDTA) stood at 10.50 per cent 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. The PAT margins stood at 3.62 percent in FY2017 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 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: The 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 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, and coking coal) which are procured locally and also imported from countries mainly China, Singapore and USA to name a few. While the company has forward cover hedge to an extent, it is exposed to forex risk for its un-hedged imports and exports.

Competitive and fragmented iron and steel industry: The company 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.

Applicable Criteria

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

Outlook: Stable

SMERA believes that MPM's outlook will remain stable and the company will benefit over the medium term from 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. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues and profitability, higher than envisaged debt funded capex or working capital requirements deteriorating the 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 Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
16 Sept, 2017	Cash Credit	Long Term	9.00	SMERA BBB-/Stable (Assigned)
25 Sept, 2017	Cash Credit	Long Term	21.00	SMERA BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	5.40	SMERA BBB-/Stable (Assigned)
	Standby Line of Credit	Short Term	1.00	SMERA A3 (Assigned)
	Letter of Credit	Short Term	11.50	SMERA A3 (Assigned)
	Proposed Cash Credit	Long Term	1.10	SMERA BBB-/Stable (Assigned)

***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	N.A	N.A	N.A.	21.00	SMERA BBB-/Stable (Reaffirmed)
Term Loan	N.A	N.A	February, 2022	5.40	SMERA BBB-/Stable (Reaffirmed)
Standby Line of Credit	N.A	N.A	N.A.	1.00	SMERA BBB-/Stable (Reaffirmed)
Letter of Credit	N.A	N.A	N.A.	11.50	SMERA A3 (Reaffirmed)
Proposed Cash Credit	N.A	N.A	N.A.	1.10	SMERA BBB-/Stable (Reaffirmed)

Note on complexity levels of the rated instrument:

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

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Aishwarya Phalke, Rating Analyst, Tel: 022-67141156 Email: aishwarya.phalke@smera.in	

ABOUT SMERA

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