

Press Release

Mantra Industries Limited

01 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 172.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3+ (Assigned)

*Refer Annexure for details

Pls note: In the Press Release of **Mantra Industries Limited published on 09th November, 2017, the 'Status of Non-cooperation with previous CRA was stated as Not Applicable'. The correct position is incorporated in this press release.**

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and short term rating of '**SMERA A3+**' (read as SMERA A three plus) on the Rs.172 crore bank facilities of Mantra Industries Limited (MIL). The outlook is '**Stable**'.

Mantra Industries Limited (MIL), incorporated in 2009 was promoted by Mr. V. Ganeshan, Ms V. Anusha and Ms. B. Priyamvadha. The company is engaged in the manufacturing and distribution of electrical and electronic home appliances such as mixer grinders, wet grinders, pressure cookers among others. The company has also set up facilities for assembling of electronic items such as weighing scales, digital set top boxes, laptops. The manufacturing facility is located at Coimbatore, Tamil Nadu with 8 injection moulding machines and capacity of 50 lakh units per annum.

List of key rating drivers and their detailed description:

Strengths:

Experienced management

MIL was promoted by Mr. V. Ganeshan (Chairman of the group), Ms. V. Anusha and Ms. B. Priyamvadha. Mr. V. Ganeshan, has more than four decades of experience in the home appliances industry and supplies electronics appliances to the government of Tamil Nadu. Ms. V. Anusha, Director, has over two decades of experience in the retailing of household appliances while Ms. B. Priyamvadha has more than a decades experience in factory administration.

SMERA believes that the company will be able to maintain its market position on the back of its experienced management.

Prudent capital structure albeit on a moderate net worth base

MIL has a prudent capital structure marked by moderate net worth base of Rs. 38.38 crore as on 31 March, 2017 compared to Rs. 36.16 crore as on 31 March, 2016. The total debt of Rs. 3.61 crore outstanding as on 31 March, 2017 comprises long term secured debt of Rs. 1.17 crore and short term debt of Rs. 2.45 crore as working capital limits. The gearing of MIL is healthy at 0.09 times as on 31 March, 2017 compared to 1.20 times as on 31 March, 2016. The coverage indicators are healthy marked by interest coverage ratio (ICR) of 4.42 times and debt service

coverage ratio (DSCR) of 3.65 times for FY2016-17 compared to ICR of 2.06 times and DSCR of 1.81 times for FY2015-16. The net cash accruals stood at Rs.3.20 crore in FY2016-17 compared to Rs.4.17 crore in FY2015-16. The Net cash accruals/ Total debt ratio stood at a healthy 0.89 times in FY2016-17 as against 0.10 times in FY2015-16.

SMERA believes that the company will be able to maintain its capital structure over the medium term on account of its healthy net accruals going forward and absence of debt funded capital expenditure plan.

Weaknesses

Fluctuating revenue profile

The company has fluctuating revenue profile owing to high dependence on tender based orders from the government of Tamil Nadu. Revenue generation is mainly from the manufacturing of home appliances under the brand names of 'LAKSHMI' and 'GANGA'. The company also undertakes Original equipment manufacturing for brands of south India such as Pigeon, Kailash, DEO apart from executing projects for the government of Tamil Nadu. The dependence of operations on successful tender bids has led to uneven revenues from FY2014 to FY2017.

Revenues for last four years stood as below:

FY2016-17	Rs. 209.30 Cr.
FY2015-16	Rs. 333.80 Cr.
FY2014-15	Rs.175.11 Cr.
FY2013-14	Rs. 262.97 Cr.

SMERA believes that high dependency on flow of orders from Tamil Nadu Government will be crucial to the company in order to maintain its revenue stream over the medium term.

Order execution risk

MIL has received order worth Rs. 507.00 crore from Tamil Nadu Arasu Cable TV Corporation Limited (TACTV) (a government entity of Tamil Nadu State) for installation of digital set up boxes. The revenues for FY2018 are expected to be generated through this order. MIL will be importing the parts used in set up boxes from China and assembling them at its factory at Coimbatore. The timely procurement, shipping and assembling will be critical to maintain its stable revenue booking from this project. Any disruption in the supply of set top boxes, installation of the same or any other event impacting the company's performance under the contract will affect future cash flows.

SMERA believes that the operating cash flows of MIL will be influenced by timely execution of the orders.

Susceptibility of margins to volatility in raw material prices

The profitability margins of the company are susceptible to volatility in raw material prices (majorly copper and steel) that comprises 91.00 per cent of the total cost of sales. Any fluctuation in the raw material prices will directly impact profitability margins of the MIL.

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

Applicable Criteria

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

Outlook - Stable

SMERA believes that the outlook on MIL will remain stable over the medium term owing to its experienced management. The outlook maybe revised to 'Positive' in case the company registers sustained growth in revenues while achieving significant improvement in profit margins. Conversely, the outlook maybe revised to 'Negative' in case of steep decline in revenues and profit margins, or deterioration in the financial riskprofile.

About the Rated Entity - Financials

For FY2016-17 (Provisional), MIL reported profit after tax (PAT) of Rs. 2.16 crore on operating income of Rs. 209.30 crore compared with PAT of Rs. 3.01 crore on operating income of Rs. 333.80 crore for FY2015-16. The net worth stood at Rs. 38.38 crore as on 31 March, 2017 as against Rs. 36.16 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: CRISIL Ratings in its press release dated September 01, 2017 inter alia has stated the following "Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of Mantra Industries Limited. This restricts CRISIL's ability to take a forward looking view on the credit quality of the entity. CRISIL believes that the information available for Mantra Industries Limited is consistent with 'Scenario 2' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB rating category or lower.' Based on the last available information, CRISIL has downgraded the long term rating to CRISIL BB/Stable' and reaffirmed the short term rating at 'CRISIL A4+."

Any other information: Not Applicable

Rating History for the 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
Cash Credit	NA	NA	NA	58.95	SMERA BBB- /Stable
Term loan	NA	NA	2019	0.84	SMERA BBB- /Stable
Proposed Cash Credit	NA	NA	NA	41.71	SMERA BBB- /Stable
Bank Guarantee	NA	NA	NA	4.00	SMERA A3+
Proposed Letter of Credit	NA	NA	NA	60.00	SMERA A3+
Proposed Bank Guarantee	NA	NA	NA	6.50	SMERA A3+

Note on complexity levels of the rated instrument: <https://www.smerra.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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