

Press Release

M G INDUSTRIES

November 22, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.50 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 6.50 crore bank facilities of M G INDUSTRIES. The outlook is '**Stable**'.

M G Industries (MGI), established in 1981 by Mr. Kanaiyalal Changrani is engaged in the manufacturing of precision components, electrical and pneumatic tools for automobiles at Nashik. The firm, led by the second generation entrepreneurs, Mr. Kunal Changrani, Mrs. Reena Changrani and Mr. Sagar Changrani caters to a reputed client base. The raw materials are procured domestically.

Key Rating Drivers

Strengths

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

MGI is engaged in the manufacturing of the aforementioned since 1981. The firm benefits from its experienced management comprising Mr. Kunal Changrani, Mrs. Reena Changrani and Mr. Sagar Changrani who possess experience of around three decades in the precision machined turned components for automotive pneumatic and electrical manufacturing industries.

- **Reputed clientele**

Over the years, the management has been able to establish long term relations with reputed players in the industry. The firm caters to Siemens, Atlas Copco India Limited, Bosch Limited and Mahindra & Mahindra Limited to name a few.

Weaknesses

- **Small scale of operations and thin profit margins**

The scale of operations is relatively small as evident from its operating income of Rs. 14.58 crore for FY2016-17 compared to Rs. 12.72 crore in the previous year. MGI reported revenue of around Rs. 11.00 crore for the period April, 2017 to October, 2017 (Provisional). The net profit margins are thin at 0.26 per cent for FY2017 as against 0.31 per cent in the previous year mainly on account of high interest cost on bank borrowings and fluctuations in raw material prices.

- **Below average financial riskprofile**

The financial risk profile is below average marked by low networth, high gearing and modest debt protection measures. The networth levels stood at Rs.1.79 crore as on 31 March, 2017 as against Rs. 0.99 as on 31 March, 2016. The gearing levels stood at 4.61 times as on 31 March, 2017 as against 6.79 times in the previous year. The total debt of Rs. 8.25 crore includes term loan of Rs.2.59 crore from the bank and working capital funds of Rs. 5.66 crore. The interest coverage ratio (ICR) stood at 1.92 times as on 31 March, 2017 as against 1.76 times as on 31 March, 2016. The Debt Service Coverage Ratio (DSCR) stood at 1.92 times as on 31 March, 2017 compared to 1.76 times as on 31 March, 2016. The Net cash accruals to total debt (NCA/TD) stood at 0.09 times as on 31 March, 2017 as against 0.07 times as on 31 March, 2016.

- **Working capital intensive operations and stretched liquidity**

The working capital intensive operations are marked by gross current asset (GCA) days of 187 in FY2017 and 183 in FY2016 on account of high inventory holding period of 136 days in FY2017 and 130 days in FY2016. Further, the liquidity position of the firm is stretched with cash credit limit being fully utilised during the last six months ended 31 October, 2017.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of M.G. Industries to arrive at the rating.

Outlook: Stable

SMERA believes that MGI's outlook will remain stable and the firm 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

In FY2016-17, the firm reported net profit of Rs.0.04 crore on operating income of Rs.14.58 crore as against net profit of Rs.0.04 crore on operating income of Rs.12.72 crore in the previous year. The tangible net worth stood at Rs.1.79 crore as on 31 March, 2017 as against Rs. 0.99 crore 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	3.05	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.45	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4

Contacts

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

ABOUT SMERA

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