

Press Release

MALNAD ALLOY CASTINGS PRIVATE LIMITED

25 November, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 29.00 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. 29.00 crore bank facilities of MALNAD ALLOY CASTINGS PRIVATE LIMITED. The outlook is '**Stable**'.

The Karnataka-based Malnad Alloy Castings Private Limited (MACPL) was established by Mr H C Raveendranath and Mr Y V Madhukar Jois in 1983. The company is engaged in the manufacturing of valve components, hydraulic components, pump components and customised castings.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters, H C Raveendranath and Mr Y V Madhukar Jois have more than three decades of experience in the metal industry. The long track record of operations has helped the company establish long term relations with customers and suppliers.

- **Average financial risk profile**

The average financial risk profile of the company is marked by moderate gearing, debt protection metrics and comfortable networth. The debt equity stood at 1.40 times and interest coverage at 1.79 times in FY2016. Moreover, NCA/TD stood at 0.07 times in FY2016 while networth stood at Rs 20.09 crore in FY2016. For FY2017 (Provisional) the gearing stood at 1.51 times, the interest coverage at 0.91 times and networth at Rs 18.16 crore.

Weaknesses

- **Working capital intensive operations**

The working capital intensive nature of operations is marked by high gross current asset days of 229 days in FY2017 (Provisional) as against 185 days in FY2016. The inventory days are high at 90 days in FY2017 (Provisional) as against 61 days in FY2016.

- **Declining revenue and margins**

The revenue declined in the last two years to Rs 62.47 crore in FY2017 (Provisional) from Rs 90.84 crore in FY2015. The installed capacity was increased from 3250 tpa to 7000 tpa with current utilisation at around 50 per cent because of reduced order flow. This has also put pressure on operating margins, due to low absorption of fixed overheads. The operating margin declined to a negative 3.86 per cent in FY2017 (Provisional) from 5.67 per cent in FY2016 and 6.96 per cent in FY2015. Moreover, because of high interest cost and depreciation, the operating and net profit margin also declined to negative of 3.08 per cent in FY2017 (Provisional) as against 1.81 per cent in FY2015. However the topline and margins are expected to improve over the medium term with utilisation of installed capacity and

demand for products. For April and May 2017, the company booked revenue of Rs 11.48 crore.

Analytical Approach

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

Outlook: Stable

SMERA believes that MACPL will maintain a stable outlook over the medium term owing to promoter's extensive experience in the iron and steel industry. The outlook may be revised to 'Positive' if the company registers more than envisaged sales and profitability while efficiently managing its working capital. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

The entity reported PAT of Rs 0.31 crore on operating income of Rs.84.97 crore in FY2016 compared to PAT of Rs.1.64 crore on operating income of Rs.90.84 crore in FY2015.

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

NA

Any other information

NA

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	5.50	SMERA B+ / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA B+ / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA A4
Overdraft	Not	Not	Not	0.10	SMERA B+ /

	Applicable	Applicable	Applicable		Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	2.56	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.84	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4
Bank guarantee/Letter of Guarantee	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
Abhishek Dey Analyst - Rating Operations Tel: 033-66201208 abhishek.dey@smera.in	

ABOUT SMERA

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