

Press Release

Malnad Alloy Castings Private Limited

July 29, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE B+** (**read as ACUITE B plus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A4** (**read as ACUITE A four**) on the Rs. 29.00 crore bank facilities of MALNAD ALLOY CASTINGS PRIVATE LIMITED. The outlook is '**Stable**'.

Upgrade in rating reflects higher-than-expected revenues and profitability. Further, the rating reflects comfortable financial risk profile and experience of the management in the industry. However, the rating is constrained due to working capital intensive operations and modest scale of operations.

Malnad Alloy Castings Private Limited (MAPL) is a Karnataka based company incorporated in the year 1983, promoted by Mr. H C Raveendranath and Mr. Y V Madhukar Jois. The company is engaged in manufacturing of valve components, hydraulic components, pump components and customised castings. The company's manufacturing facility is located at Karnataka with an installed capacity of 650 MT per month.

Analytical Approach

Acuité has considered standalone business and financial risk profiles of MAPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The company is in the said line of business since 1983. The promoters of the company, Mr. H C Raveendranath and Mr. Y V Madhukar Jois have more than three decades of experience in the industry. This long track record of operations has helped them establish good relationship with customers and suppliers. The same is reflected in growth in revenues and profitability. Revenues grew from Rs.62.82 crore in FY2017 to Rs.94.59 crore in FY2019 (Provisional). Operating margins improved from 4.84 percent in FY2017 to 7.33 percent in FY2019 (Provisional). For 3MFY2020, the company reported revenues of Rs.30 crore and has executable orders of Rs.20 crore to be executed in next two months. The company supplies its products to more than 50 customers in domestic and export market. Acuité believes that the company will benefit from the experience and long track record of operations over the medium term.

- **Comfortable financial risk profile**

Financial risk profile is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing (debt-to-equity) and TOL/TNW are comfortable at 0.94 times and 2.74 times as on 31 March, 2019 (Provisional) as against 1.51 times and 3.23 times as on 31 March, 2018. Net worth stood moderate at Rs.19.07 crore as on 31 March, 2019 (Provisional) as against Rs.16.98 crore as on 31 March, 2018. Of the total debt of Rs.18.02 crore, long term debt constitutes Rs.2.29 crore, unsecured loans of Rs.2.21 crore and short term debt of Rs.13.52 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 3.00 times and 0.23 times in FY2019 (Provisional) as against 1.96 times and 0.10 times in FY2018. In FY2019 (Provisional), they did regular a capital expenditure of Rs.1.16

crore. MAPL reported net cash accruals (NCA) of Rs.4.10 crore in FY2019 (Provisional) as against Rs.2.60 crore in FY2018. The company does regular capex of Rs.1-2 crore over the medium term. Cash accruals are expected in the range of Rs.5-6 crore, against debt repayment obligations of Rs.0.3-0.8 crore. However, the same is expected to be absorbed for working capital intensive operations. Acuité believes that with moderate accruals to repayment obligations and moderation in capex, the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

- **Modest scale of operations**

Though the revenues of the company grew from Rs.62.82 crore in FY2017 to Rs.86.59 crore in FY2018 and Rs.94.59 crore in FY2019, it remained modest in the industry. For 3MFY2020, the company reported revenues of Rs.30 crore and has executable orders of Rs.20 crore to be executed in next two months. Acuité believes that the ability of the company to increase the scale of operations while maintaining the profitability would be the key rating factor over the medium term.

- **Working capital intensive operations**

Operations of the company are working capital intensive marked by high gross current assets (GCA) of 180 days in FY2019 (Provisional) as against 187 days in FY2018 due to high inventory cycle and stretch in debtors. The inventory cycle stood at 86 days in FY2019 (Provisional) as against 75 days in FY2018. Debtors stood high at 94 days in FY2019 (Provisional) as against 100 days in FY2018. The same led to high utilisation of bank lines at 90-95 percent for the last six months through June 2019. Part of the working capital is also funded by stretching creditors. Stretch in creditors led to weak current ratio which stood at 0.99 times in FY2019 (Provisional) as against 0.93 times in FY2018. Acuité believes that operations are expected to be working capital intensive over the medium term.

Liquidity Position

The liquidity of the company is stretched marked by high bank limit utilisation despite moderate accruals to repayment obligations. MAPL's working capital intensive operations led to high utilisation of its working capital limits at about 90-95 percent for the last six months through June 2019. It reported cash accruals of Rs.4.10 crore in FY2019 (Provisional), against repayment obligations of Rs.0.97 crore. The company undertakes regular capex of Rs.1.5-2.0 crore for sand handling facility. Going forward, the company expects to generate net cash accruals in the range of Rs.5-6 crore against repayment obligations of Rs.0.3-0.8 crore over the medium term. Its Current ratio is weak at 0.99 times in FY2019 (Provisional) as against 0.93 times in FY2018 owing to stretch in its creditors to fund its working capital requirement. The company has cash and bank balance of Rs.0.80 crore as on 31 March, 2019. Acuité believes that working capital intensive operations and growing business volumes are expected to keep the liquidity at stretched level over the medium term.

Outlook: Stable

Acuité believes the outlook on MAPL will remain 'Stable' over the medium term backed by the experienced management and long track record of operations. The outlook maybe revised to 'Positive' in case of higher than expected growth in its revenue and profitability while improving its net working capital. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in the working capital cycle or higher than expected capital expenditure leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	94.59	86.59	62.82
EBITDA	Rs. Cr.	6.94	5.73	3.04
PAT	Rs. Cr.	1.85	0.26	-2.30
EBITDA Margin	(%)	7.33	6.61	4.84
PAT Margin	(%)	1.95	0.30	-3.66
ROCE	(%)	11.83	7.81	2.85
Total Debt/Tangible Net Worth	Times	0.94	1.51	1.56
PBDIT/Interest	Times	3.00	1.96	1.00
Total Debt/PBDIT	Times	2.52	4.38	8.39

Gross Current Assets (Days)	Days	180	187	227
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Oct-2018	Proposed Bank Facility	Long Term	INR 3.5	ACUITE B+ / Stable (Reaffirmed)
	Bills Discounting	Short Term	INR 7.5	ACUITE A4 (Reaffirmed)
	Term Loan	Long Term	INR 2.4	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	INR 1.3	ACUITE B+ / Stable (Reaffirmed)
	Standby Line of Credit	Short Term	INR 1	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	INR 5.5	ACUITE B+ / Stable (Reaffirmed)
	Secured Overdraft	Long Term	INR 0.1	ACUITE B+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 0.5	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	INR 1	ACUITE A4 (Reaffirmed)
	Packing Credit	Short Term	INR 2	ACUITE A4 (Reaffirmed)
25-Nov-2017	Buyers Credit	Short Term	INR 1.2	ACUITE A4 (Reaffirmed)
	Secured Overdraft	Long Term	INR 3	ACUITE B+ / Stable (Reaffirmed)
	Cash Credit	Long Term	INR 5.5	ACUITE B+ / Stable (Assigned)
	Secured Overdraft	Long Term	INR 3	ACUITE B+ / Stable (Assigned)
	Standby Line of Credit	Long Term	INR 1	ACUITE B+ / Stable (Assigned)
	Post Shipment Credit	Short Term	INR 1	ACUITE A4 (Assigned)
	Packing Credit	Short Term	INR 2	ACUITE A4 (Assigned)

Term Loan	Long Term	INR 2.56	ACUITE B+ / Stable (Assigned)
Term Loan	Long Term	INR 4.84	ACUITE B+ / Stable (Assigned)
Letter of Credit	Short Term	INR 0.5	ACUITE A4 (Assigned)
Bank Guarantee	Short Term	INR 1	ACUITE A4 (Assigned)

***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	13.20	ACUITE BB / Stable (Upgraded)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Upgraded)
Overdraft	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BB / Stable (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.71	ACUITE BB / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE BB / Stable (Upgraded)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.94	ACUITE BB / Stable (Upgraded)

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About Acuité Ratings & Research:

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