

Press Release

Mod Forge Private Limited

May 24, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 34.00 crore bank facilities of MOD FORGE PRIVATE LIMITED. The outlook is '**Stable**'.

The Chennai based MOD Forge Private Limited was incorporated in 1988 by Mr. Om Prakash Modi, Mr. Abhishek Modi and Mrs. Asha Modi. Mod Forge Private Limited (MFPL) is engaged in manufacturing and supply of bright steel bars, forging, machine components and fastners for automobile and defense industry.

Key Rating Drivers

Strengths

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

MFPL incorporated in 1988 as a private limited company. The promoters have more than two decades of experience and Mrs. Asha Modi possesses industry experience of around a decade in the said line of business. SMERA believes that the company will be benefited over the medium term on the back of established track record and experienced management.

- **Reputed clientele**

MFPL has reputed clientele including Ashok Leyland, Axles India Limited, BHEL, and Indian Defense among others. The CAGR of operating revenue has increasing to 16 percent, mainly due to repeated orders from reputed clientele and strong relation with them.

Weaknesses

- **Moderate financial risk profile**

MFPL has moderate financial risk profile marked by net worth of Rs.12.02 crore as on 31 March, 2018 (Provisional) as against Rs.11.55 crore as on 31 March, 2017. The gearing (debt-equity) stood at 3.09 times as on 31 March, 2018 (Provisional) as compared to 2.41 times as on 31 March, 2017. The total debt of Rs.37.12 crore outstanding as on 31 March, 2018 (Provisional) comprises of Rs.4.21 crore as term loan and Rs.32.91 crore as working capital borrowings from the bank and financial institution. Interest Coverage Ratio (ICR) stood at 1.91 times for FY2018 (Provisional) as compared to 1.67 times for FY2017. DSCR stood at 1.78 times in FY2018 (Provisional) as against 1.60 times in FY2017. NCA/TD stood at 0.06 times in FY2018 (Provisional) as against 0.06 times in FY2017. SMERA believes that MFPL's financial risk profile will remain moderate in near to medium term backed by moderate net cash accruals.

- **Working capital intensive operations**

The operations of MFPL are working capital intensive marked by Gross Current Asset days of 180 in FY2018 (Provisional) as against 185 days in FY2017. This is majorly on account of high debtors days of 111 in FY2018 (Provisional) and inventory days of 56 in FY2018 (Provisional). SMERA believes that being engaged in Iron & steel industry, the company's operations will continue to remain working capital intensive. Going ahead, the ability of the company to efficiently manage its working capital requirements

will remain the key rating sensitivity. The bank limit utilisation stood at an average 90 percent for last three months ending April, 2018.

• **Exposure to volatility in raw material price**

The main raw material and semi-finished products includes steel bar and iron components which are procured domestically. The price volatility of metals, combined with the limited ability of the company to pass on the changes in the price movement to end customers, leads to susceptibility of margins to fluctuations in raw material prices.

• **Competitive and fragmented industry**

MFPL operates in a highly fragmented and unorganised market for manufacturing of machine component with presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of MFPL to arrive at the rating.

Outlook: Stable

SMERA believes that MFPL will maintain a 'Stable' business risk profile on account of experienced management and reputed clients. The outlook may be revised to 'Positive' in case the company registers substantial growth in the scale of operations while achieving healthy profit margins and comfortable liquidity position. The outlook may be revised to 'Negative' in case of decline in the revenues or profitability and deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	94.18	65.91	60.96
EBITDA	Rs. Cr.	5.09	4.74	4.11
PAT	Rs. Cr.	0.68	0.62	0.14
EBITDA Margin	(%)	5.40	7.19	6.75
PAT Margin	(%)	0.72	0.94	0.23
ROCE	(%)	8.27	10.30	8.65
Total Debt/Tangible Net Worth	Times	3.03	2.41	2.11
PBDIT/Interest	Times	1.91	1.67	1.60
Total Debt/PBDIT	Times	7.16	5.65	5.12
Gross Current Assets (Days)	Days	180	185	180

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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	12.00	SMERA BB- / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4

Contacts

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ABOUT SMERA

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