

Press Release

Mark Speciality India Private Limited

November 20, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 6.32 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 6.32 crore bank facilities of MARK SPECIALITY (INDIA) PRIVATE LIMITED (MSPL). The outlook is '**Stable**'.

Incorporated in 2004, Mark Speciality (India) Private Limited (MSPL) is managed by Mr. Jaymesh Mhatre and Ms. Manasi Mhatre. MSPL is engaged in manufacturing of grease and oils used by various industrial machines and automobiles.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of MSPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operation

MSPL was promoted by Mr. Jaymesh Mhatre in 2004. Ms. Manasi Mhatre joined him in year 2015. Mr. Jaymesh Mhatre has been in the same industry for more than two decades through its group entities Lubrol and Shree Ganesh Enterprises, which were in the same line of business as MSPL. However, these are currently not in operations. The experience of the promoters is reflected through their healthy relationships with customers and suppliers in the industry and the established operational track record of over a decade.

Acuite believes that the company will continue to benefit from its experienced management.

• Moderate financial risk profile

The financial risk profile of the company is moderate marked by modest tangible net worth of Rs. 4.43 crore as on 31 March, 2019 as against Rs. 3.90 crore in the previous year. The gearing stood at 1.38 times as on 31 March, 2019 as against 1.44 times in the previous year. The total debt of Rs. 6.13 crore as on 31 March, 2019 includes long term debt of Rs. 1.39 crore and short term borrowings of Rs. 4.74 crore. The Interest Coverage Ratio declined marginally to 3.24 times for FY2019 as against 3.44 times in the previous year. The decline in coverage ratio is on account of increase in interest costs coupled with decline in EBITDA. The annual principal repayment obligation for FY2019 and FY2020 is Rs. 0.45 crore and Rs. 0.45 crore respectively. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.09 times for FY2019 as against 2.37 times in FY2018.

Acuite expects the company to improve its financial risk profile going forward supported by growth in profitability and decline in interest costs.

• Growing scale of operation

MSPL has recorded consistent growth in scale of operations during the period under study marked by operating income of Rs. 34.81 crore in FY2019 as against Rs. 27.07 crore in FY2018 and Rs. 20.35 crore in FY2016. Further, MSPL has achieved operating income of Rs.18.52 crore as on 30 September, 2019 which gives visibility of revenue in FY2020.

Weaknesses

• Declining operating and PAT margins

The company's declining profitability is reflected in decreasing operating and PAT margins. Operating margins decreased to 5.07 per cent in FY2019 from 6.41 per cent in FY2018. PAT margins decreased to 1.52 per cent in FY2019 from 2.73 per cent in FY2018. The declining PAT margins can be attributed to increase in interest costs while the decrease in operating margins can be attributed to increase in material costs as a percentage of total sales. It stood at 83.42 per cent in FY2019 from 80.32 per cent in FY18.

• Competitive and fragmented nature of industry

MSPL operates in a highly competitive and fragmented industry as there is presence of multiple players from both organized as well as unorganized players in the industry. This puts pressure on the profitability of the company.

Liquidity Position: Adequate

MSPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs. 1.02 crore in FY2019 as against Rs. 1.02 crore in FY2018 and Rs.0.84 crore in FY2017, while its maturing debt obligation was Rs. 0.45 crore for the same period. The firm's working capital operations are efficient marked by low gross current asset (GCA) days of 105 in FY2019. Average utilization of cash credit limits stands at 72% for the period April 2019 – September 2019. The current ratio of the firm stands at 1.20 times as on March 31, 2019.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key rating sensitivity.
- Increasing gross current assets days.

Material Covenants

None

Outlook: Stable

Acuite believes that MSPL will maintain a Stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial revenue growth while maintaining stable profitability and effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving the projected scalability in revenue or deterioration in profitability on account of higher than expected increase in material cost.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	34.81	27.07	20.35
EBITDA	Rs. Cr.	1.77	1.74	1.54
PAT	Rs. Cr.	0.53	0.74	0.64
EBITDA Margin	(%)	5.07	6.41	7.57
PAT Margin	(%)	1.52	2.73	3.14
ROCE	(%)	12.84	17.49	18.46
Total Debt/Tangible Net Worth	Times	1.38	1.44	1.39
PBDIT/Interest	Times	3.24	3.44	3.51
Total Debt/PBDIT	Times	3.44	3.17	2.82

Gross Current Assets (Days)	Days	105	134	170
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Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-4.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. Crore.)	Ratings/Outlook
03-Dec-2018	Overdraft	Long Term	4.50	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	1.82	ACUITE BB/Stable (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
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE BB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.43	ACUITE BB/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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