Press Release

Mudhra Fine Blanc Private Limited

January 14, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** to the Rs. 30.00 crore bank facilities of Mudhra Fine Blanc Private Limited (MFPL). The outlook is **'Stable'**.

Incorporated 2006, MFPL is engaged in the fine blanking and manufacture of precision stamped parts. The company manufactures parts mainly for the automotive industry for Braking, Engine & Transmission, Door & Window, Seating, Exhaust, Wiper System, Air-conditioning and Chassis applications for light vehicles (passenger cars, light trucks) and 2 wheelers. The company has an installed capacity to manufacture 80 million parts per annum at its facilities located in Chennai.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations along with experienced management and strong JV Partners**

  MFPL is promoted by Mr. S. Thyagarajan and Mr. Surojit Mukherjee with around four and two decades of experience in the auto ancillary business. The company was incorporated in 1994 and gradually expanded to the present total capacity of 80 million parts at its plant in Chennai (Tamil Nadu). MFPL partnered with Industria Meccanica di Arosio SpA (IMA) and Ernesto Malvestiti SpA (Malvestiti) in 2011. Malvestiti has a leading position in the European market in fine blanking technology, while IMA is specialised in progression and transfer die stamping and automated assembly and joining technology. Malvestiti holds 45 per cent stake and IMA holds 10 per cent stake in MFPL.

  MFPL has a competent management supported by a team of well qualified and experienced second line personnel. The established relations and timely deliverables have supported in revenue growth at a compound annual growth rate (CAGR) of about 25 per cent over the past three years through FY2018 at Rs.100.4 crore. The growth is as a result of investment on the facility for capacity expansion over the past three years of about Rs.15.0 crore and continuous addition of new customers to reduce client concentration. Acuité believes that MFPL enjoys the benefit of the promoters' experience and JV partners in capturing the market volumes to improve the business risk profile over the medium term.

- **Diversified revenue profile**

  MFPL's main revenue driver is braking system at about 55 per cent of total revenues; other revenue drivers being transmission parts, customised sheet metal supplies and others. Though the revenues improved to Rs.100.4 crore in FY2018 from Rs.63.6 crore in FY2016; however, MFPL managed to garner from the other segments and diversified clientele. MFPL has reported revenues of about Rs.29.4 crore for Q1FY2019. Acuité believes that with enhanced capacity at disposal along with capacity utilisation at about 70 per cent, repeat orders from its clientele are expected to support in improvement of revenues to about Rs.130.0 - 180.0 crore over the medium term.

- **Healthy financial risk profile**

  MFPL's financial risk profile is marked by healthy capital structure and debt protection metrics. The gearing (debt-to-equity) is healthy at 1.03 times in FY2018, improvement from 1.37 times in FY2016, due to moderate profitability margins, improving revenues and low reliance on working capital debt while efficiently managing the creditors and repayment of term loans. Net worth has remained comfortable at Rs.25.04 crore as on March 31, 2018. MFPL's debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratios (ICR) are healthy at 0.33 times and 5.30 times in FY2018 vis-à-vis 0.19 times and 3.36 times in FY2017, respectively. MFPL's cash accruals are Rs.8.62 crore in FY2018 and expecting to generate cash accruals of about Rs.11.00 crore to Rs. 16.00 crore over the medium term, against which its repayment obligations are moderate at about Rs.3.60 crore. Acuité believes that the financial risk profile is expected to be at similar level despite MFPL's debt-funded capex plan of about Rs.12.0 crore for setting up of a plant at SIPCOT (Tamil Nadu).

Weaknesses

- **Moderate working capital operations**

  MFPL has moderate working capital operations as evident from Gross Current Assets (GCA) of 136 days as on March 31, 2018 as against 161 days as on March 31, 2017. The moderate GCA days were mainly due to moderate inventory and moderate debtor levels. The inventory days were moderate at 54 in FY2018, since the entity maintains inventory levels of 2 months. The entity's debtor days stood at 81 days as on March 31, 2018 and provides credit period of 60 days to its customers.

  To augment the working capital requirement, it avails moderate credit of about 60 days from its creditors, which partly lead to current ratio below 1 time in the past, though improved to about 1.05 times in FY2018.Strong counterparty risk and moderate credit from the suppliers supported in moderate utilisation of working capital limits at about 60 per cent over the past six months through July 2018. Acuité believes that with improving revenues and capex under plan, the reliance on working capital is expected to increase and the operations continues to be working capital intensive over the medium term.

- **Concentration in revenue profile**

  MFPL derives about 50 per cent of its revenues from a single client; though the overall revenue has increased from Rs.63.6 crore in FY2016 to about Rs.100.4 crore in FY2018, the revenue contribution from top customer remains high at 46.5 per cent in FY2018 against 51.1 per cent in FY2016. Though MFPL's revenue profile is diversifying, still the revenue concentration remains to continue with top customer which may limit the pricing flexibility and continued revenue off-take is a key rating sensitivity factor.

Outlook: Stable

Acuité believes that MFPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience and established position of JV partners. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of higher-than-expected debt-funded capital expenditure or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	100.42	74.76	63.69
EBITDA	Rs. Cr.	12.26	8.12	6.44
PAT	Rs. Cr.	5.44	2.80	4.25
EBITDA Margin	(%)	12.21	10.86	10.12
PAT Margin	(%)	5.42	3.75	6.67
ROCE	(%)	17.28	11.50	18.56
Total Debt/Tangible Net Worth	Times	1.03	1.49	1.37
PBDIT/Interest	Times	5.30	3.36	3.05
Total Debt/PBDIT	Times	2.09	3.59	3.53
Gross Current Assets (Days)	Days	152	168	141

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

None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.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)
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
Term loans	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BBB / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Sethu Madhav Analyst - Rating Operations Tel: 040-40055480 sethu.madhav@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

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