

Press Release

Mudhra Fine Blanc Private Limited

October 29, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 30.00 crore bank facilities of MUDHRA FINE BLANC PRIVATE LIMITED. The outlook is '**Stable**'.

The ratings continue to draw comfort from the established presence in the auto component industry, moderate financial risk profile and adequate liquidity position. However, the aforementioned strengths are partially offset by the tepid market conditions in the automobile industry which is expected to lead to decline in revenues over the near to medium term, moderately working capital-intensive nature of operations and customer concentration risk.

Incorporated in 1994, 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 82 million parts per annum at its facilities located in Chennai.

Analytical Approach

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

Key Rating Drivers

Strengths

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

MFPL is promoted by Mr. S. Thyagarajan and Mr. Surojit Mukherjee with around four and two decades of experience in the auto ancillary business, respectively. The company was incorporated in 1994 and gradually expanded to the present total capacity of 82 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 27 per cent over the past three years through FY2019 at Rs.130.71 crore. The growth is as a result of investment on the facility for capacity expansion over the past three years backed by continuous orders from the existing customers and addition of new customers to reduce client concentration. Acuité believes that MFPL enjoys the benefit of the promoters' experience and JV partners over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by low gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. The gearing improved and stood low at 0.78 times as on 31 March, 2019 as against 1.03 times as on 31 March, 2018. The same is on account of improvement in net worth to Rs.32.05 crore as on 31 March, 2019 as against Rs.25.04 crore as on 31 March, 2018 due to accumulated profits. Further, TOL/TNW is stood at 1.50 times on 31 March, 2019 as against 1.86 times as on 31 March, 2018. Of the total debt of

Rs.25.04 crore as on 31 March, 2019, long term debt stood at Rs.8.00 crore and short term debt at Rs.13.72 crore and unsecured loans of Rs.3.32 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood healthy at 7.13 times and 0.43 times in FY2019. The company reported net cash accruals (NCA) of Rs.10.88 crore in FY2019. The company did a capital expenditure of Rs.9.35 crore in plant and machinery and lease hold land which was funded through internal accruals and unsecured loans from promoters. For Q4FY2020, the company is planning a capital expenditure of about Rs.7 crore which will be funded through term loan of Rs.4.9 crore and remaining through internal accruals. Despite its debt funded capex plans Acuité believes that the gearing of the company is expected to remain in the range of 0.4-0.7 times for FY 2020-22. The cash accruals are expected in the range of Rs.10 crore - Rs.13 crore during FY2020-22, against its maturing repayments of around 3 crore. Acuité believes that MFPL's financial risk profile will remain moderate over the medium term on account of modular nature of capex and its moderate cash accruals.

Weaknesses

- **Moderate working capital intensity**

MFPL operations are moderately working capital intensive as evident from Gross Current Assets (GCA) ranging between 130-150 days of sales over the last three years. The moderate GCA days from its low inventory levels of around 45-60 days on an average and its average realization period of around 75-90 days over the last three years. On the other hand, to augment the working capital requirement, MFPL avails a credit period of about 60-70 days from its suppliers, which partly lead to low current ratio which stood at 1.13 times in FY2019 and 1.06 times in FY2018. Low counterparty risk and moderate credit from the suppliers supported in moderate utilisation of working capital limits at about 71 per cent over the past 12 months through July 2019. Acuité believes that with capex under plan, the reliance on working capital is expected to increase to support the increase in scale of operations over the medium term.

- **Modest revenue profile and customer concentration risk in a highly competitive industry**

MFPL's operating in a highly competitive auto component industry which reflected in modest revenues of Rs.129.59 crore in FY2019 and Rs.100.42 crore in FY2018. The revenues of the company are expected to decline to Rs.120 crore for FY2020 due to slow down in the automobile industry. For 5MFY2020 (April-August), the company reported revenues of Rs.49.50 crore which has declined from Rs.52.30 crore from the corresponding period previous year. Further, it reported 54 percent of total revenues from two clients namely, Breaks India Private Limited and Aisin Automotive Haryana Private Limited in FY2019, and hence is exposed to customer concentration risk. The ability of the company to increase the scale of operations while reducing the customer concentration would be the key rating sensitivity factor.

Rating Sensitivities

- Improvement in revenues profile while maintaining stable profitability margins.
- Any stretch in working capital or larger than expected debt funded capital leading to deterioration in liquidity.

Material Covenants

- DSCR to be maintained more than 1.2 times.

Liquidity position

MFPL has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.6 to 10 crore during the last three years through 2018-19, while its maturing debt obligations were in the range of Rs.1.5-3.0 crore over the same period. The cash accruals of the company are estimated to remain around Rs.10 -14 crore during 2020-22 while its repayment obligation is estimated to be around Rs. 2.5-3.0 Crore. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 112 in FY 2019. This has led to lower reliance on working capital borrowings, the cash credit limit in the company remains utilized at 71 percent during the last 12 months period ended July 2019. The company maintains unencumbered cash and bank balances of Rs.0.10 crore as on March 31, 2019. The current ratio of the company stands moderate at 1.13 times as on March 31, 2019. The company is likely to incur capex of Rs7.00 crore over the medium which is likely to be funded by equity and external borrowing in the ratio of 30:70. Acuité believes that the liquidity of the company is

likely to remain adequate over the medium term on account of comfortable cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that MFPL will continue to benefit over the medium term from due to its promoters' industry experience and established position of JV partners. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	129.59	100.42	74.76
EBITDA	Rs. Cr.	15.99	12.26	8.12
PAT	Rs. Cr.	6.96	5.44	2.80
EBITDA Margin	(%)	12.34	12.21	10.86
PAT Margin	(%)	5.37	5.42	3.75
ROCE	(%)	20.70	17.28	20.95
Total Debt/Tangible Net Worth	Times	0.78	1.03	1.49
PBDIT/Interest	Times	7.13	5.30	3.36
Total Debt/PBDIT	Times	1.58	2.09	3.59
Gross Current Assets (Days)	Days	112	137	164

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
14-Jan-2019	Term Loan	Long Term	INR 11	ACUITE BBB / Stable (Assigned)
	Cash Credit	Long Term	INR 19	ACUITE BBB / 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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB / Stable

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About Acuité Ratings & Research:

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