

Press Release

Monal Chains Limited

February 04, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.7.00 Cr.
Long Term Rating	ACUITE B+/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.7.00 crore bank facilities of Monal Chains Limited (MCL). The outlook is '**Stable**'.

About Company

MCL is a Mumbai based company incorporated in 1981. The company is promoted by Mr. Rajendra Gupta and Mr. Ajay Gupta and is engaged in manufacturing of all kinds of chains and slings for industrial purposes. The company has manufacturing facility in Boisar and offices in Mumbai, Delhi and Chennai. The company has a distribution and marketing network and cater to customers across India.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MCL to arrive at the rating.

Key Rating Drivers

Strengths

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

MCL was incorporated in the year 1981 and has an established presence of four decades. The company is promoted by Mr. Rajendra Gupta with over 4 decades of experience in the business and Mr. Ajay Gupta with over 2 decades of experience in chain manufacturing business and are well equipped with knowledge of the industry. They have developed strong relationship with customers and suppliers.

Acuité believes that the company will continue to benefit the partners' experience and its established presence in the industry, improving its business risk profile over the medium term.

Weaknesses

- **Average financial risk profile**

MCL financial risk profile is marked by modest net worth, low gearing (debt-equity) and moderate debt protection metrics. The tangible net worth of the company stood at Rs.5.75 crore as on 31 March, 2020 (Provisional) (includes quasi equity of Rs.1.21 crore) as against Rs.13.15 crore as on 31 March, 2019 (includes quasi equity of Rs.1.75 crore). The total debt of Rs.4.91 crore as on 31 March, 2020 (Provisional) consist of Rs.0.36 crore of unsecured loans from directors and Rs.4.56 crore of short term debt. The gearing (debt-equity) stood at 0.86 times as on 31 March, 2020 (Provisional) as compared to 0.78 times as on 31 March, 2019. The Interest Coverage Ratio stood at 1.58 times for FY2020 (Provisional) as against 1.57 times for FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.17 times as on 31 March, 2020 (Provisional) as against 1.07 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.06 times for FY2020 (Provisional). Debt Service Coverage Ratio (DSCR) stood at 1.26 times in FY2020 (Provisional) as against 1.27 times in FY2019.

Acuité believes that the financial risk profile of MCL will continue to remain average over the medium term in the absence of any major debt-funded capital expenditure.

• **Intensive working capital cycle**

The company has an intensive working capital cycle marked by Gross Current Assets (GCA) days of 293 days in FY2020 (Provisional) and 148 days in FY2019. The receivable days stood at 27 days in FY2020 (Provisional) as against 18 days in FY2019. The inventory days stood at 271 days in FY2020 (Provisional) as against 124 days in FY2019. The average bank limit utilization remained utilized 93 percent for the past 9 months ending December 2020.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

• **Highly fragmented and competitive industry**

The company operates in a highly competitive and fragmented industry characterized by a large number of unorganized players, which further affects the margins of the company. The volatility in the prices of raw material, i.e. steel prices, will have a major impact on the profit margins of the company.

Rating Sensitivities

- Improving scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

- Tangible net worth should be maintained at minimum of 4.64 crore.

Liquidity Position: Stretched

MCL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.20 to 0.40 crore during the last three years through 2018-20, while its maturing debt obligations were Rs.0.10-0.11 crore over the same period. The company's working capital operation is intensive marked by Gross Current Asset (GCA) of 293 days in FY2020 (Provisional) as against 148 days in FY2019. The company maintains unencumbered cash and bank balances of Rs.0.51 crore as on March 31, 2020 (Provisional). The current ratio of the company stands healthy at 1.44 times as on March 31, 2020 (Provisional). The average bank limit utilization is around 93 percent for the last 9 months ending December 2020.

Outlook: Stable

Acuité believes that MCL will continue to maintain a 'Stable' outlook over the near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	11.26	22.40
PAT	Rs. Cr.	0.26	0.31
PAT Margin (%)	(%)	2.28	1.37
Total Debt/Tangible Net Worth	Times	0.86	0.78
PBDIT/Interest	Times	1.58	1.57

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

Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Apr-2019	Cash Credit	Long Term	4.50	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	0.30	ACUITE B+/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.70	ACUITE B+/Stable (Assigned)
	Bank Guarantee	Short Term	1.50	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	4.50	ACUITE B+/Stable (Reaffirmed)
WCDL	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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