



Press Release
Morewell Tubes Private Limited
August 19, 2024
Rating Assigned and Upgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|--------------------------------|-------------------|
| Bank Loan Ratings | 7.00 | ACUITE BB- Stable Assigned | - |
| Bank Loan Ratings | 20.00 | ACUITE BB- Stable Upgraded | - |
| Total Outstanding Quantum (Rs. Cr) | 27.00 | - | - |

Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE BB-' (read as ACUITE double B minus)** from **'ACUITE B+' (read as ACUITE B plus)** on the Rs 20.00 Cr. bank facilities of Morewell Tubes Private Limited (MTPL). The outlook is **'Stable'**.

Acuité has assigned its long-term rating to **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs. 7.00 Cr. bank facilities of Morewell Tubes Private Limited (MTPL). The outlook is **'Stable'**.

Rationale for Rating

The rating upgrade considers the growth recorded in the operating revenue of the company since the commencement of operations in FY2019. The revenue grew to Rs.81.73 Cr. in FY2024(Prov.) against Rs.43.82 Cr. in FY2023.

Further, the rating draws comfort from the adequate liquidity position of the company as seen by the sufficient generation of net cash accruals against the repayment obligations for the company. However, the rating remains constrained on account of improving, albeit below average financial risk profile marked by high gearing, low net worth and average coverage indicators. Further, the rating is constrained due to moderately intensive working capital operations of the company as marked by the GCA days of 114 days in FY2024 (Prov.).

About the Company

Incorporated in January 2012, Morewell Tubes Private Limited (MTPL) is a Muzaffarnagar, Uttar Pradesh based company engaged in manufacturing of High Frequency Induction Welding (HFIW) carbon steel tubes which started its operations from April 2019. The company is currently being managed by its directors Mr. Fakir Chand Mogha, Mr. Divanshu Mogha and Mr. Rajat Kumar Mogha.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone approach of the MTPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced Management

Experienced Management Mr. Fakir Chand Mogha, the Managing Director of the company is well qualified Mechanical Engineer and has experience of business, accounting and

administration skills. He has been in the industry for more than a decade. Acuité believes the company will be benefitted over the medium term on account of experience of the promoter.

Sales and Profitability

The company's revenue increased to Rs.81.73 Cr. in FY2024 (Prov.) from Rs.43.82 Cr. in FY2023, driven by increased sales volumes. However, the operating profit margin decreased to 4.51 percent in FY2024 (Prov.) from 4.97 percent in FY2023 due to higher material costs. MTPL, which supplies tubes to a variety of industries, continues to face intense competition from other market players. The major raw material, steel, experiences frequent price fluctuations, which contribute to the volatility in profit margins. This instability in raw material costs can affect the company's profitability and overall financial performance.

Weaknesses

Financial Risk Profile - Below Average

The financial risk profile of MTPL is below average, marked by high gearing, low net worth, and average debt protection metrics. The gearing stood at 20.71 times as of March 31, 2024(Prov), against 24.42 times as of March 31, 2023. The TOL/TNW stood at 21.87 times as of March 31, 2024(Prov), compared to 26.87 times as of March 31, 2023.

The tangible net worth of the company stood at Rs. 1.60 Cr. as of March 31, 2024(Prov), compared to Rs. 1.07 Cr. as of March 31, 2023. The low net worth is primarily on account of losses incurred in past years. The total debt of Rs. 33.23 Cr. as of March 31, 2024(Prov), consists of long term debt of Rs. 11.08 Cr, short-term debt of Rs. 13.88 Cr. and USL of Rs.8.26 Cr. The debt protection metrics of interest coverage ratio stood average at 1.95 times in FY2024(Prov) against 1.87 times in FY2023 and DSCR stood at 1.25 times in FY2024(Prov) against 1.48 times in FY2023.

Going forward, the ability of the company to improve its financial risk profile will remain a key monitorable.

Moderately Intensive nature of working capital operation

MTPL's working capital operations are moderately intensive marked by the high Gross Current Asset days (GCA) of 114 days in FY2024 (Prov) against 155 days in FY2023. The inventory days stood at 60 days in FY2024 (Prov) and 62 days in FY2023. The debtors' days stood at 44 days in FY2024 (Prov) against 84 days in FY2023. The company provides credit period in the range of 30 – 40 days to its customers. The creditors' days stood at 1 days in FY2024 (Prov) against 9 days in FY2023. The company enjoys a credit period of upto 15 days from their suppliers.

Going ahead, working capital operations are expected to remain in similar range over the medium term.

Rating Sensitivities

- Improvement in the financial risk profile
- Any significant elongation in working capital cycle leading to deterioration in financial risk profile

Liquidity Position

Adequate

MTPL's liquidity position is adequate, as reflected by generation of sufficient cash accruals against repayment obligations. The company generated cash accruals of Rs.2.11 Cr. in FY2024(Prov) against repayment obligation of Rs.1.24 Cr. in the same period. Going ahead, the company is expected to generate cash accruals in the range of Rs.2.16 Cr to 3.01 Cr. over the medium term against repayment obligation in the range of Rs.1.24 Cr. to 2.94 Cr. during the same period. Further, the working capital operations of the company are moderately intensive in nature marked by GCA days of 114 FY2024 (Prov) leading to high reliance on working capital limits, with average utilisation at 88% over the last six months ending June 2024.

The current ratio stood adequate at 1.66 times as of March 31, 2024(Prov). Unencumbered cash and bank balances stood at Rs 0.17 Cr. as of March 31, 2024(Prov).

Going forward, the liquidity position is expected to remain adequate on account of

expected sufficient cash accruals generation against repayment obligations over the near term.

Outlook: Stable

ACUITE believes the outlook on MTPL's rated facilities will remain stable over the medium term on account of the company's experienced management. The outlook may be revised to "Positive" in case higher than expected improvement in the operating performance and financial risk profile. Conversely, the outlook may be revised to "Negative" in case of decline in the revenues or profitability, or a higher working capital requirement deteriorating capital structure or liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 24 (Provisional) | FY 23 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 81.73 | 43.82 |
| PAT | Rs. Cr. | 0.53 | 0.12 |
| PAT Margin | (%) | 0.65 | 0.27 |
| Total Debt/Tangible Net Worth | Times | 20.71 | 24.42 |
| PBDIT/Interest | Times | 1.95 | 1.87 |

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|---|
| 16 Oct 2023 | Cash Credit | Long Term | 7.00 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Term Loan | Long Term | 4.69 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Term Loan | Long Term | 6.31 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Proposed Cash Credit | Long Term | 2.00 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| 18 Jul 2022 | Cash Credit | Long Term | 7.00 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Term Loan | Long Term | 4.69 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Term Loan | Long Term | 6.31 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Proposed Cash Credit | Long Term | 2.00 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| 19 Apr 2021 | Cash Credit | Long Term | 7.00 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Proposed Cash Credit | Long Term | 2.00 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Term Loan | Long Term | 4.69 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |
| | Term Loan | Long Term | 6.31 | ACUITE B+ (Reaffirmed & Issuer not co-operating*) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------------|-----------------------|----------------------|----------------------|----------------------|------------------|-------------------|---|
| Indian Bank | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 7.00 | ACUITE BB- Stable Upgraded (from ACUITE B+) |
| Indian Bank | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 1.00 | ACUITE BB- Stable Upgraded (from ACUITE B+) |
| Indian Bank | Not avl. / Not appl. | Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 7.00 | ACUITE BB- Stable Assigned |
| Indian Bank | Not avl. / Not appl. | Covid Emergency Line. | Not avl. / Not appl. | Not avl. / Not appl. | 28 Mar 2035 | Simple | 5.02 | ACUITE BB- Stable Upgraded (from ACUITE B+) |
| Not Applicable | Not avl. / Not appl. | Proposed Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 1.90 | ACUITE BB- Stable Upgraded (from ACUITE B+) |
| Indian Bank | Not avl. / Not appl. | Term Loan | Not avl. / Not appl. | Not avl. / Not appl. | 28 Mar 2035 | Simple | 2.17 | ACUITE BB- Stable Upgraded (from ACUITE B+) |
| Indian Bank | Not avl. / Not appl. | Term Loan | Not avl. / Not appl. | Not avl. / Not appl. | 28 Mar 2035 | Simple | 2.91 | ACUITE BB- Stable Upgraded (from ACUITE B+) |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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