



SMERA RATINGS LIMITED

Monga Brothers Limited (MBL)**Rating
Rationale****May 28, 2014**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	11.00	SMERA B/Stable (Assigned)
Term Loan	0.27	SMERA B/Stable (Assigned)
Letter of Credit	3.00	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B**' (read as **SMERA single B**) and '**SMERA A4**' (read as **SMERA A four**) to the abovementioned bank facilities of Monga Brothers Limited (MBL). The outlook is '**Stable**'. The ratings are constrained by the company's low operating profit margins and weak financial risk profile in an intensely competitive segment of the steel industry. The ratings are also constrained by the decline in the company's operating income. However, the ratings are supported by the company's experienced management.

MBL, established in 1966, is a Ludhiana-based company engaged in manufacturing of steel ingots, rounds, flats and forgings. MBL reported low operating profit margin of 2.66 per cent in FY2012-13 (refers to financial year, April 01 to March 31). The company's weak financial risk profile is marked by high overall leverage (total outside liabilities to tangible net worth ratio) of 5.95 times as on March 31, 2013 and low interest coverage ratio of 1.34 times in FY2012-13. MBL's net worth is low at Rs.4.73 crore as on March 31, 2013.

MBL faces intense competition from several players in the unorganized segment of the steel industry. The company's operating income declined from Rs.93.11 crore in FY2012-13 to Rs.58.66 crore (provisional) during the period April 2013 to December 2013.

MBL benefits from its experienced management. Mr. Sanjay Gupta, managing director of MBL, has around two decades of experience in the steel industry.

Outlook: Stable

SMERA believes the outlook on MBL'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 the company registers higher-than-expected revenues and net cash accruals while achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected net cash accruals, or in case of stretch in the company's working capital cycle. The outlook may also be adversely affected by larger-than-expected debt funded capital expenditure.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.



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Monga Brothers Limited (MBL)

Rating Rationale

About the company

MBL, incorporated in 1966, is a Ludhiana-based company promoted by Mr. Sanjay Kumar Gupta and Mr. Mukesh Gupta. MBL is engaged in manufacturing of steel ingots, rounds, flats and forgings.

For FY2012-13, MBL reported profit after tax (PAT) of Rs.0.16 crore on operating income of Rs.93.11 crore, as compared with PAT of Rs.0.21 crore on operating income of Rs.76.34 crore for FY2011-12. The company's net worth stood at Rs.4.73 crore as on March 31, 2013, as compared with Rs.4.65 crore a year earlier.

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