

**Press Release****Mahalaxmi Continental Ltd****October 29, 2019****Rating**

<b>Instrument / Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Long Term Bank Facilities	10.00	IVR BB+ /Positive (IVR Double B Plus with Positive Outlook)	Assigned
Short Term Bank Facilities	63.00	IVR A4+ (IVR A Four plus)	Assigned
<b>Total</b>	<b>73.00</b>		

**Details of Facilities are in Annexure 1****Detailed Rationale**

The aforesaid rating assigned to the bank facilities of Mahalaxmi Continental Ltd (MCL) derives comfort from its experienced promoters, growth in scale of operations in FY19 and comfortable capital structure with moderate debt service coverage indicators. However, the rating strengths are partially offset by fragmented nature of the trading industry leading to thin profit margin, susceptibility to price fluctuation and exposure to foreign currency fluctuation risk.

**Key Rating Sensitivities:****Upward factors**

- Increase in volume sales and total operating income
- Improvement in profitability with improvement in gross cash accruals

**Downward factors**

- Deterioration in overall gearing to over 1.5 times
- Deterioration in profit margin and debt coverage indicators

**List of Key Rating Drivers with Detailed Description****Key Rating Strengths****Experienced promoters**

MCL is promoted by Mr. Lakshmi Chand Singhal, having an experience of more than three decades in the coal trading business. MCL's long relationship with suppliers and customers ensures steady supply of coal and repeat orders for coal trading.

## **Growth in scale of operations in FY19**

MCL reported a y-o-y growth of ~78% growth in its total operating income (TOI of Rs.370.05 crore in FY19 against Rs.208.45 crore in FY18), supported by a rise in coal trading volume during the year. This was driven by an improved demand from end user industries. Improved scale of operations fuelled in increase in absolute EBIDTA of the company.

## **Comfortable capital structure with moderate debt service coverage indicators**

MCL's capital structure remained comfortable with a satisfactory gearing as on March 31, 2019. However, the company has long pending debtors and adjusting the same from the net worth, the overall gearing of the company stood at 1.01x as on March 31, 2019. Further, increase in absolute EBIDTA in FY19 resulted in an improvement in interest coverage from 2.52x in FY18 to 3.19x in FY19. However, the Total Debt to GCA though improved from 8.29x in FY18 remained moderate at 4.56x in FY19. Total indebtedness as indicated by the TOL/TNW remained moderate at 4.03x as on March 31, 2019 (4.80x as on March 31,2018).

## **Key Rating Weaknesses**

### **Fragmented nature of the industry leading to thin profit margin**

The coal trading industry is characterised by intense competition due to limited value addition, and consequent low entry barriers, limiting the pricing flexibility of players like MCL. As a result, the profit margins remained thin over the past years with operating margin of 1.76% and net profit margin of 0.90% in FY19. Further, the net profit margin moderated in FY19 mainly due to significant forex losses incurred due to unhedged payables.

### **Susceptibility to price fluctuation**

Coal is procured through Coal India Ltd and its subsidiaries' e-auctions and high-sea contracts with large importers. About 70% of the procurement is order backed while its remains exposed to price risk for the free hold inventory.

### **Exposure to foreign currency fluctuation risk**

Given that a sizeable proportion of the coal procurement is met through imports (around 80% in FY19), MCL's margins remain exposed to any adverse movement in foreign exchange rates to the extent of unhedged payables. The company incurred significant forex losses in FY2019 due to exposures left open.

## **Analytical Approach: Standalone**

## Applicable Criteria:

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-Financial Sector)

## Liquidity -

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.0.84 crore as on March 31, 2019. With its comfortable capital structure as on March 31, 2019 the company has sufficient gearing headroom. However, the average fund-based limit utilization of the company remained comfortable at around 60% in the past 12 months period ended on February, 2019 indicating adequate liquidity cushion.

## About the Company

Mahalaxmi Continental Ltd (MCL) was initially incorporated as a proprietorship concern in the year 1985 by Guwahati based Mr. Lakshmi Chand Singhal. Later, in 2002 the constitution of the company was converted into a public limited company. Presently, the day to day operations of the company is managed by Mr. Naveen Kumar Gupta and Mr. Avdhesh Singhal (Directors). MCL is engaged in the trading of coking and non-coking variety of coal, both domestic and imported. The company imports coal mainly from USA, Indonesia, South Africa.

## Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	208.45	370.05
EBITDA	3.90	6.50
PAT	2.67	3.38
Total Debt	23.04	16.94
Tangible Net worth	26.48	29.87
EBITDA Margin (%)	1.87	1.76
PAT Margin (%)	1.76	1.33
Overall Gearing Ratio (x)	0.87	0.57

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**

**Rating History for last three years with Infomerics:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	10.00	IVR BB+ /Positive	-	-	-
2.	Short Term Non-Fund-Based Limits – Foreign Letter of Credit	Short Term	58.00	IVR A4+	-	-	-
3.	Short Term Non-Fund Based Limits – Standby-Line of Credit	Short Term	5.00	IVR A4+	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Fund Based Limits – Cash Credit	-	-	-	10.00	IVR BB+ /Positive
Short Term Non-Fund-Based Limits – Foreign Letter of Credit	-	-	-	58.00	IVR A4+
Short Term Non-Fund Based Limits – Standby- Line of Credit	-	-	-	5.00	IVR A4+