

**Press Release**

**Marda Industries Pvt Ltd**

**September 16, 2019**

**Ratings**

| <b>Instrument / Facility</b>              | <b>Amount<br/>(Rs. crore)</b> | <b>Ratings</b>                                              | <b>Rating<br/>Action</b> |
|-------------------------------------------|-------------------------------|-------------------------------------------------------------|--------------------------|
| Long Term Bank<br>Facilities- Cash Credit | 1.35                          | IVR B+/Stable<br>(IVR Single B Plus with Stable<br>Outlook) | Assigned                 |
| Long Term Bank<br>Facilities-Term Loan    | 11.50                         | IVR B+/Stable<br>(IVR Single B Plus with Stable<br>Outlook) | Assigned                 |
| <b>Total</b>                              | <b>12.85</b>                  |                                                             |                          |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The aforesaid ratings assigned to the bank facilities of Marda Industries Pvt Ltd (MIPL) derives comfort from its growing presence in the north-east market, proximity to major raw material sources and positive demand outlook for Autoclaved Aerated Concrete (AAC) blocks. However, the rating strengths are partially offset by its modest scale of operations, high working capital intensity, leveraged capital structure coupled with moderate coverage indicators, vulnerability of profitability and cash flows to cyclicalities inherent in the real estate/construction industry. Timely commencement of operations with the expanded capacity, growth in scale of operations with improvement in profitability, improvement in gearing level and efficient working capital management are the key rating sensitivities.

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

**Growing presence in the north-east market**

In FY2019, the operating income witnessed a growth of ~13%, increasing to Rs.7.24 crore from Rs.6.41 crore in FY2018. With an expansion in its dealer network in the north-east market, over the past three years, the total sales grew a CAGR of 49% in the last three financial years. Commencement of operations with the expanded capacity (from 50,000 to

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1,00,000 CBM p.a) will support revenue growth further. The plant is expected to operate at the increased capacity from October 2019.

### **Proximity to major raw material sources**

The major raw materials required for manufacturing of AAC blocks includes sand, cement, lime powder, gypsum and aluminium powder. The company sources sand (the primary raw material) locally due to its abundance, while cement is procured from established players in Meghalaya. With other materials like lime and aluminium powder available domestically through its established supplier network, MIPL enjoys regular supply and savings in freight cost.

### **Positive demand outlook**

Demand of AAC blocks is on uptrend in India because of structural superiority and cost effectiveness in comparison with the conventional bricks. Besides, these blocks are considered environment friendly in nature.

### **Key Rating Weaknesses**

#### **Modest scale of operations limits scale of economies and financial flexibility**

Even though the company witnessed considerable growth in scale during FY17-19, its scale of operations remained moderate due to moderate capacity and early stage of operations. It faces competition from other AAC block manufacturers and from the new entrants, given the relatively moderate technical and capital requirements.

#### **High working capital intensity**

AAC blocks manufacturing is highly dependent on the availability of raw materials like sand, cement, lime and aluminium powder, etc which necessitates storing of raw materials for continuous production. This apart, the high working capital intensity also emanates from the high inventory holding period given the need to stock blocks of different sizes to address varied customer demands.

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### Leveraged capital structure coupled with moderate coverage indicators

MIPL's capital structure remains stretched, as reflected by a gearing of 1.59 times (treating the unsecured loans as neither debt nor equity) as on March 31, 2019, on account of the debt funded capex undertaken in the past. The coverage indicators, as denoted by Total Debt/EBITDA and interest coverage, stood moderate at 5.23 times and 1.60 times, respectively.

### Vulnerability of profitability and cash flows to cyclicalities inherent in the real estate/construction industry

The real estate/construction industry is the key end-user for AAC-blocks manufacturers. Hence, the profitability and cash flows are expected to remain vulnerable to the inherent cyclicalities of the real estate industry.

**Analytical Approach:** Standalone.

#### Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### Liquidity

Liquidity is marked by tightly matched accruals to repayment obligations and highly utilized bank limits.

#### About the Company

Incorporated in 2014 by the Marda family of Guwahati, Marda Industries Pvt Ltd (MIPL) is engaged in the manufacturing of Autoclaved Aerated Concrete (AAC) blocks (sand based). The manufacturing unit of the company is located at the Export Promotion Industrial Park (in Meghalaya) with an installed capacity to produce 1,00,000 cubic meters of AAC blocks annually. The plant was commissioned in June 2016. The company sells AAC blocks under the brand name "POWERLITE".

#### Financials (Standalone):

| For the year ended* / As On | (Rs. crore)    |                |
|-----------------------------|----------------|----------------|
|                             | 31-03-2018     | 31-03-2019     |
|                             | <b>Audited</b> | <b>Audited</b> |
| Total Operating Income      | 6.41           | 7.24           |
| EBITDA                      | 1.83           | 2.40           |

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| For the year ended* / As On                          | 31-03-2018 | 31-03-2019 |
|------------------------------------------------------|------------|------------|
| PAT                                                  | 0.01       | 0.02       |
| Total Debt (Excl. Subordinated Loans)                | 11.28      | 12.57      |
| Tangible Net worth                                   | 7.01       | 7.93       |
| EBITDA Margin (%)                                    | 28.53      | 33.12      |
| PAT Margin (%)                                       | 0.10       | 0.33       |
| Overall Gearing Ratio (x) (Excl. Subordinated Loans) | 1.61       | 1.59       |

\*Classification as per Infomerics' standards.

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

**Any other information:** Nil

**Rating History for last three years:**

| 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                     | 1.35                           | IVR B+/ Stable Outlook | -                                       | -                                       | -                                       |
| 2.      | Long Term Fund Based Limits - Term Loan   | Long Term                     | 11.50                          | IVR B+/ Stable Outlook | -                                       | -                                       | -                                       |

**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

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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

| Name of Facility                        | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|-----------------------------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Fund Based Limits–Cash Credit | -                | -                | -             | 1.35                         | IVR B+/ Stable Outlook   |
| Long Term Fund Based Limits –Term Loan  | -                | -                | March 2023    | 11.50                        | IVR B+/ Stable Outlook   |