Mantri Metallics Private Limited

March 28, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	69.47	IVR BB / Stable Outlook [IVR Double B with Stable Outlook]	Rating revised from IVR B / Stable Outlook	Simple
Short Term Bank Facilities	18.00	IVR A4 [IVR A Four]	Reaffirmed	Simple
Total	**87.47 (Rupees Eighty Seven Crore and Forty Seven Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in rating of the bank loan facilities of Mantri Metallics Private Limited (MMPL) factors significant improvement in operational as well as financial performance during FY22 (Audited) and 10MFY23 (provisional key financials). Further the ratings continue to derive comfort from experienced management and long track record of operations, diversified revenue stream with presence in both domestic and export markets, association with reputed customer base, improvement in scale of operation along with profitability margins during FY22 & 10MFY23 and comfortable operating cycle. The rating is however constrained by leveraged capital structure and debt coverage indicators, exposure to foreign exchange fluctuation, exposure to cyclicality inherent in auto industry and intense competition in automotive component industry which exert pressure on margins.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.

- Effective working capital management with improvement in operating cycle and liquidity.

Downward Factors

- Any dip in operating income and/or profitability impacting the debt coverage indicators or liquidity could lead to a negative rating action.
- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics
- Any further increase in the operating cycle, which may adversely impact the company's liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management and long track record of operation**

  Mr. Prasad Mantri is managing director of the company and he completed his graduated in chemical engineering from Mumbai University in 2000. He has an experience more than two decades in the metal industry and has developed the export market of the company and in last more than 15 years. He shares very good rapport with all his clients, which includes world renowned players in the commercial vehicle segment, tractors segment and also non-automotive side. Mrs. Shruti Mantri is Director of the company and has experience of 15 years. She has done her graduation in Bachelor of Commerce.

- **Diversified revenue stream with presence in both domestic and export markets**

  MMPL has a diversified geographical presence in both the domestic and export markets, thus insulating it to an extent against moderation in demand from any one market. Exports account for ~34% of its revenue in FY22 and the rest constitute domestic sales. Exports at the company have increased steadily over the years and is expected to increase to ~40% in the coming years as the company remains focussed on scaling up the same.

- **Association with reputed customer base**

  MMPL's business risk profile continues to be supported by healthy relationship developed with various OEMs like Tata Motors, Ashok Leyland, John Deer, Volvo, Tata Cummins, etc. Moreover, reputed client base ensures timely realization of receivables.

- **Improvement in scale of operation along with profitability margins during FY22 & 10MFY23**

  The total operating income of the company has improved significantly by 35% and stood at Rs.227.72 crore in FY22 (vis-à-vis Rs.169.05 crore in FY21) on the back of increase in sales of auto components, driven by improvement in economic and operating environment resulted in increase in volume sales coupled with increase in average realization cost. Consequently, the profitability margins and cash accruals of the company has also improved and stood at 5.87% and 4.25% respectively in FY22. Also the company has achieved a topline of Rs.212.33 crore along with the EBITDA and PAT margins of 10.27% and 2.83% respectively in 10MFY23 and has outstanding order book in hand amounting to Rs.54.82 crore as on January 31, 2023, which are likely to be executed in current financial year, thereby providing revenue visibility in short term.

- **Comfortable operating cycle**

  The operating cycle of the company stood comfortable at 6 days for FY22. The company maintains adequate inventory in the form of raw material mainly consisting of C.R.C.A., C.I., M.S. scraps for smooth running of its production processes resulting into average inventory holding period of 50 days for FY22. The company procures raw material from domestic market from players like Madhuban Trade Steels Pvt. Ltd., Ring Plus Aqua Ltd. etc. whose credit period ranges between 2-3 months resulting in average creditor period of 107 days for FY22. Further, the company allows credit period of 1-2 months to its clients, leading to collection period of 63 days for FY22. As a result of the same the working capital limits were fully utilized for the past twelve months period ended January, 2023.

Key Rating Weaknesses

- **Leveraged capital structure and debt coverage indicators**

  The capital structure marked by adjusted overall gearing and TOL/ATNW have been significantly improved and stood at 4.71 times and 8.88 times respectively as on March 31, 2022 (vis-à-vis 29.03 times and 45.13 times respectively as on March 31, 2022) mainly due to the company has incurred one-time non-cash exception income amounting to Rs.30.30 crore in FY22 leading to improvement in networth base. Further debt coverage indicators marked by interest coverage ratio has also improved and stood at 1.03 times in FY22 (as against 0.28 times in FY21) mainly due to improvement in operating profit from Rs.3.18 crore in FY21 to Rs.13.36 crore in FY22. However, the capital structure and debt coverage indicators continue to be remained leveraged on account of high reliance on external debt.

- **Exposure to foreign exchange fluctuation**

  The company derived 33% of its revenues from countries such as USA, Germany, Sweden. These exports expose the company to regulatory risk arising from changes in other countries' procurement policies and forex fluctuation risk. However, the forex exposure is risk is mitigated through natural hedge to some extent almost fully hedged limiting the forex risk. As the company has sizeable imports and exports, thereby provides natural hedge to some extent, further the company has availed forward contract limit of Rs.0.70 crore, limiting the forex risk.

- **Exposure to cyclicality inherent in auto industry**

  The company's business is susceptible to inherent cyclicity as the automotive industry, linked to the performance of the economy.

- **Intense competition in automotive component industry which exert pressure on margins**

  Intense competition due to the presence of other automotive component manufacturers, which exerts pricing pressures, is likely to weigh on the company's operating margins. With increasing presence of domestic as well as international players in the automotive ancillary business, the competition had increased over the years. Nonetheless, MMPL's strong relationship with its clients mitigates the risk to a certain extent. Further iron & steel are the major raw materials for the company. Steel prices are highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors. Thus, the company's cash flows and profits are susceptible to fluctuation in raw material prices.

Analytical Approach: Standalone

Applicable Criteria:

Criteria for assigning rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Stretched

The liquidity position of the company remained stretched as marked by tightly matched repayment obligations vis-à-vis gross cash accruals. Further the company’s liquidity has remained stretched as evident from current ratio of 0.95 times in FY22 and the working capital limit utilization is fully utilized for the past twelve months period ended January 31, 2023. However, the unencumbered cash and bank balance stood at Rs.5.74 crore as on January 31, 2023.

About the Company

Mantri Metallics Private Limited (MMPL) incorporated in July 31, 1995. MMPL’s primary line of business is production and distribution of auto parts primarily to original equipment manufacturer (OEMs). The company manufactures cast iron automotive components like Flywheel, Assemblies, Break Drums, Exhaust Manifolds, Housings & Plates etc. MMPL caters to a diversified segment viz., heavy & light commercial vehicles, tractors, passenger cars and non-automotive components for diesel engines and engineering products. MMPL has a production capacity of 37,200 MT of machined iron castings manufacturing over 200 different types of parts across 3 manufacturing facilities viz., 2 units located at Shiroli & Kagal in Kolhapur, Maharashtra and 1 unit located at Pantnagar in Rudrapur, Uttarakhand. MMPL has an integrated facility with all under one roof – foundry, machining, painting & sub-assembly. MMPL has full-fledged paint shop.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	**31-Mar-2021 (Audited)**	**31-Mar-2022 (Audited)**
Total Operating Income	169.05	227.72
EBITDA	3.18	13.36
PAT	-26.89	9.76
Total Debt	129.49	92.03
Adjusted Tangible Net worth	4.44	19.42
EBITDA Margin (%)	1.88	5.87
PAT Margin (%)	-15.76	4.25
Overall Gearing Ratio (times)	29.03	4.71

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Brickwork Ratings India Private Limited in its press release dated December 26, 2022 has continued to place the rating of Mantri Metallics Private Limited under Issuer Not Cooperating category due to nonavailability of information

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2022-23)			**Rating History for the past 3 years**		
Sr. No.	**Name of Instrument / Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
Press Release					**22-Jul-2022**	–	–
1.	Fund Based – Term Loan	Long Term	12.45	IVR BB / Stable	IVR B / Stable	–	–
2.	Fund Based – WCTL	Long Term	6.98	IVR BB / Stable	IVR B / Stable	–	–
3.	Fund Based – GECL	Long Term	10.04	IVR BB / Stable	IVR B / Stable	–	–
4.	Fund Based – Cash Credit	Long Term	*40.00	IVR BB / Stable	IVR B / Stable	–	–
5.	Non-Fund Based – Letter of Credit	Short Term	^13.50	IVR A4	IVR A4	–	–
6.	Non-Fund Based – Bank Guarantee	Short Term	^3.80	IVR A4	IVR A4	–	–

Press Release

		Current Ratings (Year 2022-23)			Rating History for the past 3 years		
Sr. No.	**Name of Instrument / Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
Press Release					**22-Jul-2022**	–	–
7.	Non-Fund Based – Forward Contract	Short Term	0.70	IVR A4	IVR A4	–	–

**Interchangeability between cash credit and Export Packing Credit (EPC) amounting to Rs.20.00 crore and Post Shipment Credit (PSC) facility amounting to Rs.5.00 crore within the overall fund based working capital limit of Rs.40.00 crore*

^Both ways interchangeability between LC & BG limits to the extent of 25%

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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 – Term Loan	–	–	Feb – 2027	12.45	IVR BB / Stable
Long Term – Fund Based – WCTL	–	–	Dec – 2024	6.98	IVR BB / Stable
Long Term – Fund Based – GECL	–	–	Nov – 2026	10.04	IVR BB / Stable
Long Term – Fund Based – Cash Credit	–	–	–	*40.00	IVR BB / Stable
Short Term – Non-Fund Based – Letter of Credit	–	–	–	^13.50	IVR A4
Short Term – Non-Fund Based – Bank Guarantee	–	–	–	^3.80	IVR A4
Short Term – Non-Fund Based – Forward Contract Limits	–	–	–	0.70	IVR A4

**Interchangeability between cash credit and Export Packing Credit (EPC) amounting to Rs.20.00 crore and Post Shipment Credit (PSC) facility amounting to Rs.5.00 crore within the overall fund based working capital limit of Rs.40.00 crore*

^Both ways interchangeability between LC & BG limits to the extent of 25%

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-MMPL.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.