

Mittal Appliances Limited

October 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	40.50	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	290.00	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Reaffirmed
Total facilities	330.50 (Rupees Three Hundred Thirty crore and Fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Mittal Appliances Limited (MAL), CARE has taken combined view of the Mittal Group entities, namely, MAL and Mittal Coin Private Limited (MCPL) due to their operational (same line of operations and complete sales of MCPL is to MAL) and managerial linkages (common promoters).

The ratings continue to derive strength from long standing track record of the promoters of Mittal Group in the casting of ferrous and non-ferrous alloys (mainly coin blanks), its well established operational setup along with reputed clientele and moderate order-book providing reasonable revenue visibility of the group. The ratings further derive comfort from successful completion of greenfield project of MCPL at Pithampur, Madhya Pradesh and commencement of commercial production from April 2016, leading to improved profitability of the group.

The ratings, however, are constrained on account of high degree of customer concentration, exposure to volatility in metal prices and foreign currency exchange rate along with its operations being working capital intensive.

The ability of Mittal group to increase its scale of operations, improve its profitability and capital structure through effective management of its working capital requirements are the key rating sensitivities. Furthermore, the group's ability to grow its order book through diversification of its customer base and increase the healthy capacity utilisation level of MCPL's facility will also be crucial in the medium term.

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing track record of the promoters in the casting industry: Mr Dineshchand Mittal, promoter of the Mittal Group, is a management graduate with industry work experience of over three decades. He is supported by his son Mr Anshul Mittal, who manages the operations and marketing aspects of the group. The board of directors is supported by a team of professionals; however, the decision-making is mainly promoter-driven.

Well established operational setup along with moderate order book position: Mittal Group is engaged in manufacturing of coin blank and coils for over two decades through MAL and has executed several orders for Indian Government Mint (IGM) and multiple international customers such as the Royal Canadian Mint (RCM), Banco Central de Reserve Del, Peru, Central Bank of Malaysia, etc. The manufacturing facility of MCPL is also equipped with ability to manufacture cupronickel coil, coin blank, ingots etc., enhancing the product profile of business of Mittal group. With the completion of greenfield project at MCPL, casting capacity of Mittal Group increased to 17,570 Metric Tonne Per Annum (MTPA). Capacity utilisation of MAL remained moderate at 75% in FY17. As on August 25, 2017, MAL has a moderate order backlog of Rs.127 crore.

Stable scale of operations, albeit improvement in profitability and capital structure of the group: Mittal Group reported a total operating income (TOI) of Rs.411.33 crore during FY17 (FY refers to the period April 01 to March 31), a growth of

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

6% over FY16. However, PBILDT margin improved by 171 bps during FY17, primarily on account of commencement of commercial operations of its green field project at MCPL, removing the capacity constraint in casting faced by MAL. Earlier, MAL used to directly procure its coil requirement from domestic as well as international markets, which it now manufactured at MCPL. Overall gearing of the group improved to 1.60x as at end of FY17. Debt coverage indicators also showed an improvement during FY17.

Key Rating Weaknesses

Susceptibility to raw material price and foreign exchange fluctuation; albeit, presence of price formula in contracts partially mitigates the risk: MAL's main raw material includes copper, nickel etc., which have exhibited significant price volatility in the past. However, MAL's present order book has a pricing formula which is linked to the average price of the base metals on the London Metal Exchange (LME) during the month immediately preceding the month of delivery to customer. Hence, MAL procures its raw materials in line with the targeted delivery schedule and hedges its open exposure through commodity exchanges which mitigates raw price volatility risk to some extent. Furthermore, with establishment of MCPL, imported raw material which constituted almost 54% of total cost of material consumed during FY16, reduced to 38% during FY17. Furthermore, MAL's sales price formula for majority of its orders is linked to US Dollar denominated LME prices, hence, MAL has natural hedge to a certain extent on its foreign exchange exposure.

Working capital intensive nature of operations: Mittal Group's working capital cycle remained moderate at 74 days during FY17 on account of higher inventory period and lower credit period available from its suppliers. MG's current and quick ratio also remained comfortable as on March 31, 2017. Furthermore, the share of net working capital to operating capital employed of Mittal Group remained high at 77% during FY17. The average utilization of fund-based working capital facilities remained low at around 32% during the trailing 12 months ended on July 31, 2017.

Analytical approach: Combined. For analysis purpose we have presented a combined view of the Mittal group entities (MAL and MCPL) due to their operational (same line of operations and complete sales of MCPL is to MAL) and managerial linkages (common promoters).

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Incorporated in 1985, Indore-based MAL is flagship company of Mittal Group (MG). Promoted by Mr Dineshchand Mittal, it is a closely-held, predominantly family-managed company engaged in the casting of ferrous and non-ferrous alloys (mainly coin blanks) with an installed capacity of 9,570 MTPA as on March 31, 2017. MAL has executed several orders for Indian Government Mint (IGM) and international mint houses. MAL is the only Indian associate member of RCM, a 100-year old mint house, responsible for the minting and distribution of Canada's circulation coins.

Mittal Group promoted another entity named MCPL in December 2013. The company undertook a green field project to manufacture copper and copper alloy products including cupronickel coin blanks, ingots, coil etc. It commenced commercial production in April 2016 with an installed manufacturing capacity of 8,000 MTPA at its facility located in Pithampur, Madhya Pradesh.

Brief Financials (Rs. crore) – MAL (Standalone)	FY16 (A)	FY17 (A)
Total operating income	484.17	389.60
PBILDT	23.07	22.81
PAT	7.20	6.31
Overall gearing (incl. acceptances) (times)	1.67	2.29
PBILDT Interest coverage (times)	2.16	1.90

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	40.50	CARE BBB+; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	170.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	120.00	CARE BBB+; Stable / CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	40.50	CARE BBB+; Stable	-	1) CARE BBB+; Stable (05-Dec-16)	1) CARE BBB+ (05-Jan-16) 2) CARE BBB+	1) CARE BBB (07-Jan-15)

							(28-Aug-15)	
2.	Non-fund-based - LT/ ST- Letter of credit	LT/ST	170.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (05-Dec-16)	1)CARE BBB+ / CARE A3+ (05-Jan-16) 2)CARE BBB+ / CARE A3+ (28-Aug-15)	1)CARE BBB / CARE A3+ (07-Jan-15)
3.	Non-fund-based - LT/ ST- Bank Guarantees	LT/ST	120.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (05-Dec-16)	1)CARE BBB+ / CARE A3+ (05-Jan-16) 2)CARE BBB+ / CARE A3+ (28-Aug-15)	1)CARE BBB / CARE A3+ (07-Jan-15)

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