

## Methodex Systems Private Limited

October 03, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	71.08 (Reduced from 71.91)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	65.00	CARE A3+ (A Three Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>136.08</b> <b>(₹ One Hundred Thirty-Six Crore and Eight Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Methodex Systems Private Limited (MSPL) factors in improved liquidity resulting from recovery of overdue receivables from Andhra Pradesh government and supported by positive operational cash flows during FY22 (refers to the period from April 01 to March 31). The rating further continues to take into consideration company's long and established relationship with its customers which includes some of the leading banks and government departments, experienced promoters and company's long track record of operations. However, the ratings are constrained by deterioration in scale of operations during FY22, moderate financial risk profile characterized by modest debt coverage indicators and return ratios, fragmented nature of industry, raw material and foreign exchange risk.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent growth in scale of operations with ROCE above 13.00% on a sustained basis.
- Improvement in collection period below 100 days leading to lower dependence on borrowings on a sustained basis.
- Improvement in capital structure with overall gearing below 0.60x on a sustained basis.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in scale of operations with ROCE below 5.00% on a sustained basis.
- Deterioration in capital structure with overall gearing above 1.00x on a sustained basis.
- Weakening of liquidity as a result of delay in realization of dues from customers.

### Detailed description of the key rating drivers

#### Key rating strengths

**Recovery of overdue receivables during FY22 and Q1FY23 (refers to the period from April 01 to June 30):** MSPL had received an order of Rs.250.00 crore from Andhra Pradesh backward classes cooperative finance corporation (APBC) to deliver 3,60,000 school desks and 16,000 almirahs. However, the company had been facing recovery issues which led to increase in total debtors from Rs.95.75 crore as on March 31, 2020 to Rs.172.97 crore (debtors from APBC constituting ~Rs.93.00 crore) as on March 31, 2021. However, the total debtors have reduced to Rs.121.62 crore as on June 30, 2022 with only ~Rs.20.00 crore-Rs.22.00 crore remaining to be collected from APBC which is expected to be collected by November, 2022.

**Strong relationship with leading banks and government departments:** With over five decades of operation, MSPL has developed healthy relationships with the leading banks and other government institutions in the country. The company has been empanelled by regional and head offices of various leading banks and government bodies for supply of office furniture and automation products. Further, the revenue of the company has diversified in FY22 with top 5 customers contributing ~17% of the total revenue in FY22 (PY: ~61%). The demand for safe, safe deposit lockers and compactors has been growing at a steady pace. The key demand drivers include the changes in specifications announced by Bureau of Indian Standards which needs to be complied by all the PSU and private sector banks, augmentation of branch network and the replacement demand. Further,

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

MSPL has diversified its business profile by venturing into design and consultancy segment which is expected to improve profitability of the company in the future.

**Experienced promoters and long track record of operations:** MSPL has been in the business of office equipment/furniture since 1960. It was started by (Late) Mr. S N Katariya and (Late) Mr. Himmatlal Gandhi. The company has been operating for over five decades in this business and has moved from simple products like visual card recorder cabinet to more complex equipment. Currently, the second generation of the promoters is involved in the management of the company and Mr. Rohit Katariya (Joint Managing Director) is looking after the day to day operations and has an industry experience of 36 years.

### **Key rating weaknesses**

**Moderation in scale of operations in FY22:** The total operating income of the company declined by ~40% to Rs.286.16 crore in FY22 (PY: Rs.475.33 crore) on account of no bulk order being executed by MSPL in FY22 (MSPL had executed a bulk order of Rs.250.00 crore from Andhra Pradesh backward classes cooperative finance corporation to supply school furniture in FY21). The PBILDT margin of the company improved to 5.22% in FY22 (PY: 3.85%) primarily due to low PBILDT margin reported in FY21 on account of surge in steel (key raw material for MSPL) prices. However, despite improvement in the PBILDT margin in FY22, the PAT margin of the company declined marginally to 1.05% (PY: 1.14%) due to increase in interest and depreciation cost as a percentage of total operating income due to decline in scale of operations in FY22.

**Moderate financial risk profile:** The overall gearing of the company although improved remained moderate at 0.69x as on March 31, 2022 (PY: 0.91x). Debt coverage indicators of the company remained modest as reflected by PBILDT interest coverage and total debt/GCA of 1.62x (2.15x) and 15.05x (PY: 14.20x) in FY22 respectively due to decline in scale of operations in FY22 leading to decline in PBILDT and GCA in absolute terms. Further, the ROCE of the company remained low at 6.27% (PY: 7.87%) vis-à-vis borrowing cost of 9.50% per annum in FY22 due to low profitability margins.

**Fragmented nature of the industry:** The industry is primarily dominated by the unorganized sector due to low entry barriers as the industry is not capital intensive with limited technology requirement. The fragmented nature leads to intense competition, which impact the profitability margins of the players involved. Also, the banking automation/security products industry is dominated by other large domestic (Godrej) & international players (IKEA, Steelcase, etc.). The implementation of GST had a positive impact on MSPL as earlier few of its products were in the range of 28% but after GST, all the products come under 18% tax slab.

**Raw material and foreign exchange risk:** Raw material (mainly iron & steel) and trading purchases comprise majority of costs (~70%-75% of total operating income) for MSPL. Though, the company is able to pass on any increase in raw material price to the customers owing to its branding, however, being in a competitive industry, the extent and timing of the finished price hike is affected by market-scenario. Imports constituted ~8% of total raw material purchased during FY22 (PY: ~4%) against which there were no exports. Consequently, MSPL is exposed to foreign currency fluctuation risk to the extent of its imports as the exposure is not hedged. The company has not reported gain or loss due to foreign exchange fluctuation risk in the past 3 financial years.

**Liquidity: Adequate** – Liquidity profile of the company is adequate as reflected by scheduled debt repayment of Rs.1.07 crore in FY23 against projected gross cash accruals to the tune of Rs.13.38 crore in FY23. Average utilization of working capital borrowings stood 84.20% for the trailing 12 months ended July, 2022. Further, MSPL had free cash and bank balance to the tune of Rs.2.56 crore as on March 31, 2022. The company is projected to incur capex of Rs.6.75 crore in FY23 pertaining to regular maintenance which shall be funded from internal accruals.

**Analytical approach:** Standalone

### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

### About the company

Methodex Systems Private Ltd (MSPL) was set up as a partnership firm in 1960 by (Late) Mr. S N Katariya and (Late) Mr. Himmatlal Gandhi for manufacturing of office furniture & equipment. MSPL is engaged in the manufacturing of office equipment/furniture including security equipment, modular workstations & chairs, storage products, currency-handling machines and projectors. It has 2 manufacturing units located at Indore and Pithampur in Madhya Pradesh. Also, with 28 regional offices and presence in over 150 locations (marketing offices) in India, the company has a strong service network.

Brief Financials (₹ crore)	FY21 (A)	FY22 (P)	Q1FY23 (P)
Total operating income	474.17	286.16	59.22
PBILDT	17.15	14.93	2.65
PAT	5.40	3.01	NA*
Overall gearing (times)	0.91	0.69	0.81
Interest coverage (times)	2.02	1.62	4.47

A: Audited, P: Provisional, NA\*: Not available

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	35.00	CARE BBB; Stable
Non-fund-based-Short Term		-	-	-	65.00	CARE A3+
Fund-based/Non-fund-based-Long Term		-	-	-	35.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	December, 2024	1.08	CARE BBB; Stable

### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	35.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (01-Apr-21)	-	1)CARE BBB+; Stable (23-Mar-20)
2	Non-fund-based-Short Term	ST	65.00	CARE A3+	-	1)CARE A3+ (31-Mar-22)	-	1)CARE A2+ (23-Mar-20)

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						2)CARE A3+ (01-Apr-21)		
3	Fund-based/Non-fund-based-Long Term	LT	35.00	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (01-Apr-21)	-	1)CARE BBB+; Stable (23-Mar-20)
4	Fund-based - LT-Term Loan	LT	1.08	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-22) 2)CARE BBB; Stable (01-Apr-21)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-Long Term	Simple
3	Fund-based/Non-fund-based-Long Term	Simple
4	Non-fund-based-Short Term	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

### Media contact

Name: Mradul Mishra  
Phone: +91-22-6754 3596  
E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst contact

Name: Sachin Mathur  
Phone: 9810865435  
E-mail: [sachin.mathur@careedge.in](mailto:sachin.mathur@careedge.in)

### Relationship contact

Name: Swati Agrawal  
Phone: +91-11-4533 3200  
E-mail: [swati.agrawal@careedge.in](mailto:swati.agrawal@careedge.in)

### About us:

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