Mutha Founders Private Limited

November 03, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.00	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**32.00 (₹ Thirty-Two Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE has been seeking NDS from Mutha Founders Private Limited (MFPL) to monitor the rating vide email communications dated October 26, 2022, October 20, 2022, October 19, 2022, October 18, 2022, October 11, 2022, October 06, 2022, October 01, 2022 etc, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information (NDS for past 3 months) for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Mutha Founders Private Limited's bank facilities will now be denoted as CARE BB; Stable; ISSUER NOT COOPERATING.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been revised on account of non-availability of NDS for past 3 months ended October 2022, latest financial statement for FY22 and H1FY23, and banker and auditor due diligence also could not be conducted.

Detailed description of the key rating drivers

At the time of last rating on February 02, 2022 the following were the rating weaknesses and strengths

Key rating weaknesses

Declining yet modest scale of operation

MFPL's scale of operation has reflected a declining trend since past two years (FY19-20) and further declined to Rs.123.53 crore in FY21 vis-à-vis Rs.137.12 crore in FY20 as reflected by reduced volumes owing to various factors namely outbreak of Covid-19 which led to reduced demand, chip shortage (which led to lower vehicle production) and increase in fuel prices. However, the total income has improved significantly during 9MFY22 and stood at Rs.115.98 crore due to uptick in demand from OEM's during the festive season, nevertheless scale of operation continues to remain modest.

Moderate operating margin and low net profit margin

MFPL's operating margin stood modest in past owing to value added nature of engineering work being carried out i.e. shell moulded casting process followed and captive use of its own sand plant. During FY21 they have installed solar power plant which will result in significant savings in power cost and its job workers also use solar plant resulting in cost savings. Further despite the decline in scale of operation the operating profit margin improved marginally due to improved realization coupled with savings in material cost. PAT margin stood low due to high interest and depreciation expense. However, the same has improved to 1.90% in FY21 vis-à-vis 1.81% in FY20 due to improvement in PBILDT margin coupled with savings in interest and depreciation cost, however it continues to remain low.

Working capital intensive nature of operation

Working capital cycle is stretched with funds blocked in inventory and debtors. MFPL has to offer higher credit period to its customers on account of its low bargaining power against reputed customers. Further the absolute receivables deteriorated in FY21 owing to delay in receipt of funds due to stretched liquidity on account of outbreak of Covid-19 and the same has improved as on December 2021. On the other-hand it has to maintain sufficient stock of the raw material to ensure uninterrupted production and just in time supply and inventory cycle for component is 1 months and for running component is 10-15 days. The above has led to higher utilization of the working capital limit. The same is offset to a certain extent on account of reasonable credit received from suppliers due to established relations with them.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Cyclical nature of the automobile sector
On the back of slowdown in auto segment which was further aggravated by the outbreak of the Covid-19 pandemic, growth challenges remain for the auto component industry. The new stringent emission norms, BS VI adoption means increased components per vehicle driving the demand for auto ancillaries, capex on technological advancement remain to put pressure on the company's cash flows.

Susceptibility to raw material price volatility
MFPL uses steel, iron and sand as its major raw materials and hence the profitability of MFPL is susceptible to any volatility in these prices as raw material is one of the major cost drivers (constituting about 40% of the cost of sales for FY21). MFPL's raw material are fixed as per MMR and further it fixes and revisits the prices on quarterly basis and any escalation is passed on the customers. Hence the company is sensitive to adverse movement in prices of finished goods and raw materials. The ability of the company to pass on the increase in price to its customers without major time lag accompanied by the competition existing in this segment remains an important factor.

Intense competition from organized and unorganized players
MFPL manufactures products and operates in casting industry which comprises of several players in the unorganized sector and is also characterized by high degree of fragmentation. There also exist big sized companies namely Paranjape Autocast Private Limited, Autoshell and others resulting in intense competition in the industry. The casting and machining industry are characterized by low entry barriers and low level of product differentiation. Therefore, pricing is the important factor for the company to garner customer especially with no long-term contracts.

Key rating strengths
Long track record of operations and experienced promoters with vast experience in auto component manufacturing business
MFPL has long track record of more than three decades in the casting industry, supplying to the original equipment manufacturers (OEMs) and the auto ancillary industry. Mr. Ajit Mutha (Chairman & Managing Director), Mr. Anoop Ajit Mutha (Director) and Mr. Jaideep Baphna (Director)- are highly experienced and qualified. The directors are involved in the day to day operations of the business and are ably supported by a qualified and professional management team who looks after various activities such as production, procurement and operations.

Long standing relationship with its reputed client base and track record of repeated orders from same customers albeit concentrated customer base
MFPL has established itself as a preferred vendor for supplying its products and shares healthy relationship with its reputed clients such as Hero Motorcorp Limited, TVS Motors Company and Baja Auto Limited. However, MFPL caters only to 2-wheeler vehicle segment and the customer base is concentrated with top 4 customers constituting around 89% of total income in FY21 vis-à-vis 95% in FY20, out of this 51% is only to 1 customer namely Hero MotorCorp Limited, nevertheless the counter party risk is mitigated due to dealing with established customers and MFPL caters to around 40-45% of Hero MotorCorp Limited and Bajaj Auto Limited's cylinder blocks demand.

Comfortable capital structure and debt coverage indicator
Capital structure marked by overall gearing has remained comfortable in past, (FY19-20) owing to lower reliance on external debt to fund its business operations coupled with accretion of profit to reserves. However, the same has deteriorated marginally to 0.81x as on March 31,2021 vis-à-vis 0.68x as on March 31,2020 owing to additional term loan availed (to fund purchase of plant and machinery for capacity expansion) and higher utilization of the working capital limit as on balance sheet date. Further owing to above coupled with degrowth in cash accruals in FY21 (by 9.24%), total debt/GCA deteriorated and stood at 2.05x in FY21 vis-à-vis 1.64x in FY20.Nevertheless the same continues to remain comfortable. Interest coverage ratio continued to remain healthy in FY21 and further improved to 5.53x in FY21 vis-à-vis 5.28x in FY20 due to savings in interest cost.

Liquidity: Adequate
Liquidity is marked by moderate accruals of Rs. 9.08 crore as on March 31,2021 as against repayment obligations to the tune of Rs. 5.10 crore for FY22. With a gearing of 0.81 times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its working capital utilization stood at 92% for past twelve months ended December 2021.Further it has free liquidity in form of free fixed deposit of Rs.3 crore as on March 31,2021.

Analytical approach: Standalone

Applicable criteria
Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology- Manufacturing companies
Rating Methodology- Auto Ancillary companies
Financial ratios: Non-financial sector
Liquidity Analysis of Non-Financial Sector Entities

About the company

Incorporated in the year 1982, Mutha Founders Private Limited (MFPL) is a part of Satara (Maharashtra), based Mutha Group, incorporated by Mr. Ajit Zankarmal Mutha. MFPL is engaged in manufacturing of various types of raw, semi-finished and finished shell moulded Cast iron (CI) and Spheroidal Graphite Iron (SGI) castings, machining and assembling of cast iron parts and other engineering job works. Around 30-40% of activity i.e. moulding, coating & painting is outsourced. The end users of the products are Original Equipment Manufacturers (OEMs) and other auto component manufacturers.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(Prov.)	FY22(Prov.)
Total operating income	137.12	123.53	115.98	NA
PBILDT	13.45	12.21	NA	NA
PAT	2.49	2.34	3.91	NA
Overall gearing (times)	0.68	0.81	0.85	NA
Interest coverage (times)	5.28	5.53	NA	NA

A: Audited, Prov.: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Nil

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 - LT-Cash Credit		-	-	-	12.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	October 2028	20.00	CARE BB; Stable; ISSUER NOT COOPERATING*

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 - LT-Term Loan	LT	20.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (02-Feb-22)	-	-
2	Fund-based - LT-Cash Credit	LT	12.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (02-Feb-22)	-	-

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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

Analyst contact
Name: Ruchi Sanghavi
Phone: 9820921375
E-mail: ruchi.shroff@careedge.in

Relationship contact
Name: Aakash Jain
Phone: +91-20-4000 9090
E-mail: aakash.jain@careedge.in

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