

Micro Industrial Corporation

April 12, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term / Short Term Bank Facilities	80.00	CARE C; Stable / CARE A4; ISSUER NOT COOPERATING* (Single C ; Outlook: Stable/ A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B; Negative / CARE A4; (Single B ; Outlook: Negative / A Four)
Total Bank Facilities	80.00 (Rs. Eighty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 09, 2020, placed the rating(s) of Micro Industrial Corporation(MIC) under the 'issuer non-cooperating' category as MIC had failed to provide information for monitoring of the rating. MIC continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated March 31, 2021. 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.

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 ratings have been revised on account of reported delays in payment of undisputed statutory dues. Further, CARE does not have receipt of requisite information and hence CARE is not able to conduct appropriate analysis.

Detailed description of the key rating drivers

At the time of last rating on March 09, 2020 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Stretched liquidity and elongated operating cycle: The stretched liquidity profile of the company is marked by over draws reported in the working capital bank facilities of the company. The operations of the firm are working capital intensive in nature as reflected by operating cycle of 336 days as on March 31, 2019 (PY: 330 days) due to high inventory holding period of 324 days as on March 31, 2019 (PY: 354 days), as the firm maintains a high level of inventory of various products due to its diversified product profile and wide variety and sizes across product categories.

Low profitability margins: The profitability margins stood low as reflected by PBILDT margins of 9.14% in FY19 (PY: 9.25%) and PAT margins of 0.03% in FY19 (PY: 0.18%). The profitability margins are on the lower side due to intense competition in the industry and higher interest cost due to working capital intensive operations which necessitates higher working capital borrowings. The total sales reported by the firm in H1FY20 was Rs.58.83 crore while PBILDT figure reported was Rs.7.93 crore.

High competition: The firm competes with various unorganized and organized brands such as Relaxo, Paragon, Veekey, Lancer, Lee Cooper etc. The competition from both organized and unorganized players has a bearing on the pricing power and profitability profile. Constitution as a partnership firm: MIC's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of promoters would be the key factors affecting credit decision for the lenders.

Weak financial risk profile: The overall gearing of the firm deteriorated to 2.05x as on March 31, 2019 (PY: 1.19x) owing to increased utilization of working capital limits. The interest coverage ratio moderated to 1.47x in FY19 (PY: 1.77x). The total debt to gross cash accruals stood high at 23.91x in FY19 (PY: 16.77x).

Key Rating Strengths

Experienced partners: MIC is managed by Mr. Raj Kumar Gupta, son of Mr. Mange Ram Aggarwal who is the founder of Action group. Mr. Raj Kumar Gupta is having over 34 year experience in shoe industry. During FY18 (refers to the period April 01 to March 31), the partners infused Rs. 11.23 cr. in MIC in form of capital. The total capital infusion in the firm stood at Rs. 21.64 crore between FY16 to FY18. Further, for smooth functioning of the business, the partners have infused unsecured loan of Rs. 27.25 crore between FY16 to FY18. However, partner's capital stood reduced at Rs.55.69 crore in as on March 31, 2019 (PY: Rs.64.21 crore) and unsecured loan figure reduced marginally to Rs.26.24 crore as on March 31, 2019 (PY: Rs.27.25 crore)

Long track record of operations, established brand name and wide distribution network: The firm is into shoe business since 1995 and has well-established relationships with customers and suppliers with considerable diversification in sale of products

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

*Issuer did not cooperate; Based on best available information

and sourcing of raw materials. The firm is in manufacturing, distribution and trading of shoes under the brand name of 'DotCom, Flotter, Health Plus, Forina, School Time, Fun Time and Micro' within the umbrella 'Action' brand. MIC have access to network of around 800 distributors of action group spread all over the country, out of which about 250 are exclusive distributors of action group products catering to all segments of shoe industry.

Liquidity – Stretched

The stretched liquidity of the firm is marked by over draws in the working capital bank facility and elongated operating cycle which stood at 336 days as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's Rating Methodology- Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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

About the Firm

Micro Industrial Corporation (MIC) a part of 'Action Group' is engaged in manufacturing, distribution and trading of shoes in various segments under the brand name of 'DotCom, Flotter, Health Plus, Forina, School Time, Fun Time and Micro'. The group has in-house processes right from designing to processing, finishing and quality control and the products are processed from 2 units operated by MIC (1 in Delhi and 1 in Bahadurgarh). MIC is engaged in manufacturing and selling of footwear.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	119.87	162.53
PBILDT	11.09	14.86
PAT	0.22	0.05
Overall gearing (times)	1.19	2.05
Interest coverage (times)	1.77	1.47

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	80.00	CARE C; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (29-Jan-19)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (29-Jan-19)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	80.00	CARE C; Stable / CARE A4; ISSUER NOT COOPERATING*	-	-	1)CARE B; Negative / CARE A4; ISSUER NOT COOPERATING* (09-Mar-20)	1)CARE BBB-; Stable / CARE A3 (22-Feb-19)

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable**Annexure 4: Complexity level of various instruments rated for this company - Not applicable**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. 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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