# Maruti Overseas

March 21, 2022

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Short Term Bank Facilities | 25.00 | CARE A4+<br>(A Four Plus ) | Assigned |
| **Total Bank Facilities** | **25.00<br>(Rs. Twenty-Five Crore Only)** | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The credit profile of Maruti Overseas (MO) is primarily constrained on account of modest and declining scale of operations coupled with low net worth base and low profitability margins. Further, the rating is also constrained by Foreign Exchange fluctuation risk, risk associated with highly competitive industry & low entry barriers and Constitution of entity being a proprietorship firm. The credit profile derives comfort from experienced promoters, comfortable capital structure coupled with healthy coverage indicators and moderate operating cycle.

**Rating Sensitivities**

**Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Improvement in scale of operations to around Rs.280.00 crore and above over the medium term on sustained basis.
- Improvement in Profitability Margins marked by PBILDT and PAT margins above 4% and 3% on a sustained basis.

**Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Decline in profitability margins as marked by PBILDT and PAT below 0.70% and 0.30% respectively.
- Decline in operating cycle above 60 days, on a sustainable basis
- Deterioration in overall gearing to above 1.00 times.

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

**Modest and declining scale of operations coupled with low net worth base**: MO's scale of operations continues to remain modest as evident from total operating income (TOI) of Rs.150.61 crore and gross cash accruals of Rs.1.69 crore respectively, during FY21 (FY refers to the period April 1 to March 31) as against Rs.204.47 crore and Rs.1.04 crore respectively, during FY20. Moreover, MO's scale of operations declining for the period FY19-FY21 (refers to the period April 1 to March 31). The same was mainly on account of lower intake from its existing customers. Furthermore, the net worth base of the firm also stood small at Rs.10.76 crore as on March 31, 2021. The modest scale of operations limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Further, the firm has achieved TOI of Rs.157.10 crore during 9MFY22 (refers to the period April 1 to December 31; based on provisional results)

**Low profitability margins:** The firm's profitability margins continue to remain low during the past three years (FY19-FY21) on account of trading nature of the business and intense market competition given the highly competitive nature of the industry. Furthermore, the margins of MO are lower compared with other traders as it derives a substantial amount of revenue from low margin products. PBILDT margin improved and stood at 1.51% in FY21 as against 0.70% in FY20 on the back of proportionate decline in overhead expenses. Similarly, PAT margin in line with PBILDT margin also improved and stood at 1.12% in FY21 as against 0.48% in FY20. In 9MFY22 the firm has generated PBILDT margin and PAT margin of 1.33% and 0.39% respectively.

**Foreign exchange fluctuation risk:** Maruti Overseas imported ~70 % of its purchases from Taiwan, USA, & Republic of Korea (South Korea) With initial cash outlay for procurement in foreign currency and entire sales realization in domestic currency, the firm is exposed to the fluctuation in exchange rates. Moreover, the firm has no defined policy of hedging which exposes it to risks of any sharp depreciation in the value of rupee against foreign currency which may impact its profitability margins. Therefore, operating margin remains vulnerable to volatility in foreign exchange rates fluctuations. However, the firm reported a gain of Rs 1.25 Cr in FY21 from foreign exchange fluctuation.

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

**Highly competitive industry & low entry barriers:** The trading industry is highly fragmented and competitive with more than two-third of the total number of players being unorganized. Hence, the players in the industry do not have any pricing power and are exposed to competition induced pressures on profitability. Also, due to low entry barriers in the industry and low value-added nature of products, high competition is the inherent risk associated with the industry.

**Constitution of the entity being a proprietorship firm:** Maruti Overseas constitution as a proprietorship firm has the inherent risk of possibility of withdrawal of the proprietor's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of proprietor. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

**Key Rating Strengths**

**Experienced promoter:** The firm was promoted by Mr. Suresh Kumar Guptas is an advocate, graduated from Delhi University, who has more than four decades of experience in Manufacturing and trading of Plastic Polymers like PVC and LDPE. The firm has a dedicated team professionals which look after the Sales of the company, However the Promoter's decision is final due to his prolonged experience in this industry. Apart from Sales, Overall Administration of the firm's business is handled by the Promoter himself.

**Comfortable capital structure coupled with healthy coverage indicators:** The capital structure of the firm stood comfortable as on the past two balance sheet dates ending March 31, '20- '21 on account of limited debt levels against the net worth base. Overall gearing ratio stood comfortable at 0.61x in FY21 mainly on account of low debt as on balance sheet date coupled with accretion of profits to net reserves. Further, the debt coverage indicators of the firm continue to remain moderate as marked by interest coverage and Total Debt to GCA which stood at 4.41x and 3.72x in FY21.

**Moderate Operating Cycle:** The operating cycle of the firm continues to remain moderate at 8 days for FY21. The firm normally extends credit period of up to 15-30 days to its customers. Furthermore, the firm receives an average credit period of 1-2 month from its suppliers as the entire purchase is LC backed. Being a trading company, MO is required to maintain adequate inventory of finished goods to cater the immediate demand of the customers, resulting in an average inventory holding period of around 25 days during FY21

**Liquidity: Adequate**

The liquidity position of the firm remained adequate characterized by sufficient cushion in accruals vis-à-vis nil repayment obligations. The firm has reported gross cash accruals to the extent of Rs.1.76 crore during FY21 and is expected to generate envisaged GCA of Rs.1.80 crore for FY22 against nil repayment obligations. However, the non-fund-based working capital limits is ~100% utilized for the past 12 month's period ending February 2022. With nil dependence on external borrowings as of March 31, 2021, the firm has sufficient gearing headroom, to raise additional debt for its capex, supported by above unity current ratio.

**Analytical approach:** Standalone

**Applicable Criteria**

Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading

**About the Company**

Maruti overseas (MO) is proprietorship firm was founded by Mr Suresh Kumar Gupta in 2015 for the trade of Plastic polymers and compounds like PVC Resin, PVC paste resin, ABS, LDPE and EVA. Approximately 70% of this material is being imported from Countries like Taiwan, Republic of South Korea and the United States of America. These Plastics polymers are used in several industries like Footwear, apparels, Plumbing, electronics, etc.

| Brief Financials (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | 9MFY22*(UA) |
|---|---|---|---|
| Total operating income | 204.47 | 150.61 | 157.10 |
| PBILDT | 1.43 | 2.28 | 2.09 |
| PAT | 0.98 | 1.69 | 0.62 |
| Overall gearing (times) | 1.55 | 0.61 | NA |
| Interest coverage (times) | 3.72 | 4.41 | NA |

*A: Audited; UA: Unaudited, NA: Not Available*

**Refers to the period from April 1, 2021 to December 31, 2021.*

**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 firm**: Annexure- 4

**Annexure-1: Details of Instruments / Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-fund-based - ST-Letter of credit | | - | - | - | 25.00 | CARE A4+ |

**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 | Non-fund-based - ST-Letter of credit | ST | 25.00 | CARE A4+ | | | | |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

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

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Non-fund-based - ST-Letter of credit | 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 instrument:** CARE Ratings Ltd. 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.

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**About CARE Ratings Limited:**

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