

Mehala Machines India Limited

December 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	9.50	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	9.50 (Rs. Nine Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Mehala Machines India Limited (MMIL) continues to be constrained by moderate scale of operations, moderate debt coverage indicators and presence in highly fragmented and competitive industry. However, rating derives strengths from experienced promoters with established track record, comfortable capital structure and reputed clientele base.

Rating Sensitivities

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

- Ability to scale up the operations to over Rs. 100 crores while maintaining the PBILDT margin of over 10% on consistent basis and comfortable capital structure
- Generate adequate accruals and improve debt coverage metrics of total debt to GCA below 5x

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

- Any sizable decline in scale of operations with income below Rs.50 crore along with decline in profitability margins on sustained basis.
- Any large debt funded capex leading to moderation in capital structure with overall gearing above 2x

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate Scale of operations and debt coverage indicators

Despite the company being operational over two decades, the scale of operations remained moderate with total income of Rs.85.51 crore in FY21 albeit increased from Rs.69.40 crore in FY20. With low accruals the debt coverage metrics also stood moderate with Total debt/ GCA of 8.16x as on March 31, 2021 (PY: 12.94x).

Highly fragmented and competitive industry

The trading industry is highly fragmented with large number of organized and unorganized players in India. There is high competition within the industry due to low entry barriers on account of low capital investment required. On account of the same competition within the players is very high which in turn leads to a fragmented market and moderate profitability margins.

Key Rating Strengths

Experienced promoters with established track record

MMIL was incorporated in 1996 by Mr. C. Subramaniam along with other directors. Mr. C. Subramaniam is a qualified graduate and he is the Managing Director of the company who takes care of day to day operations. The company has experienced executive team who has more than a decade of experience in the industry. The vast experience of the promoters in the industry the company has enabled the company to have established relationship with suppliers and customers.

Comfortable capital structure

The capital structure of the company remained comfortable marked with overall gearing at 0.76x as of March 31, 2021 as against 0.70x as of March 31, 2020. During FY21, the company availed covid emergency loans of Rs.3.14 crore at relatively lower interest rate for working capital purposes. The interest coverage stood comfortable at 2.68x in FY21 (PY: 1.98x).

Reputed clientele base

MMIL's has established strong business relationship with various reputed clients namely Raymond Apparel Limited (CARE A (CWD)/ CARE A1(CWD)), Godrej Industries Limited, Arvind Limited (CARE AA-; Stable / CARE A1+), Shahi Exports Limited, Best Corporation Private Limited (CARE A; Stable / CARE A1) and others.

Liquidity: Stretched

Liquidity is stretched marked by tightly matched accruals against the repayment obligations and moderate cash balance of Rs.0.80 crore as on March 31, 2021. The operating cycle of the company improved to 109 days in FY21 from 144 days in FY20. Being a trader, the company imports and stocks sufficient machineries in its stockyard to meet demand from customers. On account of this, the inventory period stood high at 107 days in FY21 (PY:135 days). MMIL imports machinery through letter of credit facility with sanctioned limit of Rs. 21.50 crore and the average utilization stood around 96% for past 12 months ended November 30, 2021. The entity had been sanctioned with cash credit limit of Rs. 9.50 crore and the average utilization of the

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same stood high at 98% for last twelve months ended November 30, 2021. The company has availed interest moratorium for cash credit facility during the period March-August 2020 as a relief measure offered by banks for covid pandemic and also availed covid loan of Rs. 3.14 crore crores on November 2020 with tenure of 48 months including holiday period of 12 months.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology –Wholesale trading](#)

[Rating Methodology- Cotton Textile Manufacturing](#)

About the Company

Mehala Machines India Limited (MMIL) was incorporated in 1996 by Mr. C. Subramaniam and other directors at Tamil Nadu. The company is engaged in trading of "Industrial Garment Machinery". MMIL purchases Industrial Garments Machinery from China, Taiwan and Germany countries and sells the product to the customers located in India. The registered office of the company is located at Tirupur, Tamil Nadu.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	8MFY22 (UA)
Total operating income	69.40	85.51	70.89
PBILDT	5.33	6.88	3.96
PAT	0.95	2.83	2.77
Overall gearing (times)	0.70	0.76	NA
Interest coverage (times)	1.98	2.68	4.77

A: Audited; UA: Un Audited, NA: Not Available

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	9.50	CARE BB; Stable

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	9.50	CARE BB; Stable	-	1)CARE BB; Stable (26-Mar-21)	1)CARE BB; Stable (03-Mar-20)	-

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	Fund-based - LT-Cash 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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