

## Mudrakshi Hytech India Private Limited

October 26, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	47.90	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	39.30	CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable/ A Four )	Reaffirmed
<b>Total Bank Facilities</b>	<b>87.20</b> <b>(₹ Eighty-Seven Crore and Twenty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

#### **Detailed Rationale & Key Rating Drivers**

The rating of Mudrakshi Hytech India Private Limited continues to remain constrained by small and fluctuating scale of operations, elongated operating cycle, leveraged capital structure and weak coverage indicators. Further, the rating is also constrained by risk associated with foreign exchange fluctuation risk, and business risk associated with tender-based orders coupled with competitive nature of industry. The ratings, however, derive strength from experienced management coupled with long track record of operations, association with the reputed customer base and improvement in profitability margins.

#### **Key Rating Sensitivity**

##### **Positive Factors**

- Improvement in scale of operations to around Rs. 55.00 crores and above over the medium term on sustained basis.
- Improvement in the operating cycle of the company for less than 90 days.

##### **Negative Factors**

- Deterioration in the capital structure as marked by overall gearing ratio of above 2.00x.
- Deterioration in profitability margins as marked by PBILDT and PAT margins below 24.00% and 2.00% respectively on sustained basis.

#### **Detailed description of the key rating drivers**

##### **Key Rating Weaknesses**

##### **Small and fluctuating scale of operations**

MHIPL's scale of operations improved though stood small as marked by total operating income to Rs. 28.70 crores during FY22 (based on audited result) as against Rs. 15.41 crores during FY21. The increase in total operating income is on account of increased business with existing clients. Nevertheless, the scale remains small, it limits the company's financial flexibility in times of stress and deprives it of scale benefits. Moreover, MHIPL's scale of operations remained fluctuating for the period FY20-FY22 (refers to the period April 1 to March 31). TOI declined in FY21 over FY20 and thereafter registered improvement in FY22 reflecting a growth rate of 11.96% on account of increased business with existing clients. Further, the company has achieved total operating income of Rs. 19.76 crore during 6MFY23 (refer to the period from April 01, 2022 to September 30, 2022) and expecting to achieve total operating income of around Rs. 43.45 crore during FY23 as envisaged.

##### **Elongated operating cycle**

The operating cycle of the company improved though remain elongated to 138 days during FY22 as against 344 days for FY21. The improvement in operating cycle is on account of improvement in collection period and inventory holding days. The inventory holding period stood at 231 days in FY22 on account of substantial purchases done and maintenance of high amount of inventory owing to procurement of new tender. Further, the company primarily deals with nationalized banks wherein due to

<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

lengthy clearance process the payment gets realized from 2-3 months and the same varies with bank to bank resulting into collection period of 78 days in FY22. As on date, the company has unbilled revenue of 5.00 crores.

#### ***Leveraged capital structure and weak debt coverage indicators***

The capital structure of the company stood leveraged on account of high debt levels against moderate net worth base. Overall gearing ratio stood at 2.18x as on March 31, 2022 as against 0.81x as on March 31, 2021 primarily on account of higher debt levels as on balance sheet date. The average utilization of working capital borrowings is around 50% for past 12 month's period ending September 30, 2022. The capital structure is expected to remain leveraged in the range of 1.60x-2.00x as envisaged on account of high debt levels.

Further, owing to high debt levels leading to high interest cost during FY22 the debt coverage indicators of the company stood weak as marked by interest coverage ratio and total debt to GCA of 2.89x and 6.77x respectively in FY22 as against 2.38x and 5.39x respectively in FY21. The debt coverage indicators is expected to remain in the range of 2.00x-3.00x over the medium term as envisaged.

#### ***Foreign exchange fluctuation risk***

MHIPL meets ~80% in FY22 (PY: 99% in FY21) of its procurement through imports from countries such as Japan and Korea. However, the products are completely sold in the domestic market. With initial cash outlay for procurement in foreign currency and inflows in domestic currency, the company is exposed to the fluctuation in foreign exchange rates. However, in absence of any hedging policies adopted by the company, MHIPL profitability margins are exposed to volatility in foreign exchange. Moreover, any change in government policies, either domestic or international is likely to affect the company's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non-tariffs barriers (restriction on the quality of imports), anti-dumping duties, international freight rates and port charges.

#### ***Business risk associated with tender-based orders coupled with competitive nature of industry***

The major business of the company is procured through the tender-based system. The company is exposed to the risk associated with the tender based business, which is characterized by intense competition. Further, the award of contracts is tender driven and lowest bidder gets the work. Hence, going forward, due to increasing level of competition and aggressive bidding, the profits margins are likely to be under pressure in the medium term.

#### **Key Rating Strengths**

##### ***Experienced partners***

Mr. Jyotirmoy Chakraborty and Mrs. Neelam Chakraborty are the directors of the company, and they collectively look after the overall operations of the company. Both the directors are postgraduates by qualification and have accumulated vast experience of more than three and half decades in business related to currency sorting machines through their association with this entity. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

##### ***Association with the reputed customer base***

MHIPL's business risk profile continues to be supported by healthy association developed with various reputed banks such as State Bank of India, Bank of Baroda, Jammu & Kashmir Bank Limited, Indian Bank, Union Bank of India, etc. However, top five customers' accounts for ~90% share of TOI in FY22. This exposes the company towards customer concentration risk. Any change in procurement policy of this customer may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans along with its ability to successfully obtain the tender at quoted prices. However, the company has been successful in getting the repetitive tenders for the last 2-3 decades from its clients. This long-term and close relationship with its clients is reflective of the company's demonstrated ability to provide quality products and services. Further, the company has entered into a service level agreement (SLA) with SBI for providing services for sorting, processing, packaging, bundling and shrink wrapping of currency notes on currency sorting and

other related machines on hire basis at 285 currency chests of SBI for the period of 5 years which further adds to the market value and goodwill of the company.

### **Improvement in profitability margin**

The profitability margin of the company is improving year on year as marked by improvement in PBILDT margins to 36.09% in FY22 as against 33.99% in FY21 owing to higher margins generated from sales of note sorting machines. Similarly, PAT margin also improved and stood at 3.59% in FY22 as against 1.27% in FY21 on account of improvement in PBILDT margin.

### **Liquidity analysis: Adequate**

The liquidity position of the company remains adequate characterized by sufficient cushion in gross cash accruals (GCA) vis-à-vis repayment obligations. The company has reported gross cash accruals to the extent of Rs.6.55 crore during FY22 and is expected to generate envisages GCA of Rs.10.01 crore for FY23 against repayment obligations of Rs.6.74 crore. The company has low free cash & bank balances which stood at Rs.1.93 crore as on March 31, 2022. However, the working capital limit utilization is around 50% for past 12 months period ending September 30, 2022. .

### **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](#)

[Service Sector Companies](#)

[Wholesale Trading](#)

#### **About the Company**

Mudrakshi Hytech India Private Limited (MHIPL) (erstwhile known as Jay Enn India Private Limited) was incorporated in November 1985. The company is currently managed by Mr. Jyotirmoy Chakraborty and Mrs. Neelam Chakraborty. The company is engaged in developing high-end currency counting and currency sorting machines integrated with packaging system comprising of sorting, strapping, processing, packaging, bundling and shrink wrapping of currency notes on currency sorting and other related machines on hire basis at currency chests to State Bank of India. The company is also engaged in the trading, installation, commissioning & maintenance of currency sorting machines mainly for nationalized banks.

<b>Brief Financials (Rs. crore)</b>	<b>31-03-2021 (A)</b>	<b>31-03-2022 (A)</b>	<b>6MFY23 (Prov.) *</b>
Total operating income	15.41	28.70	19.76
PBILDT	5.24	10.36	7.05
PAT	0.20	1.03	1.73
Overall gearing (times)	0.81	2.18	2.09
Interest coverage (times)	2.38	2.89	3.77

A: Audited; Prov. (Provisional)

\*refer to the period from April 1, 2022 to September 30, 2022.

**Status of non-cooperation with previous CRA:** Brickwork has downgraded the ratings assigned to the bank facilities of Mudrakshi Hytech India Private Limited in Issuer Not Cooperating Category wide Press Release dated August 03, 2022.

ICRA has retained the ratings assigned to the bank facilities of Mudrakshi Hytech India Private Limited in Issuer Not Cooperating wide Press Release dated September 09, 2021.

**Any other information:** Not Available

**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 Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	39.30	CARE BB; Stable / CARE A4
Fund-based - LT-Term Loan		-	-	November 09, 2026	37.90	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 (₹ 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-Cash Credit	LT	10.00	CARE BB; Stable	-	1)CARE BB; Stable; ISSUER NOT COOPERATING * (29-Dec-21) 2)CARE BB; Stable (15-Sep-21)	1)CARE B+; ISSUER NOT COOPERATING * (18-Jun-20)	1)CARE BB; ISSUER NOT COOPERATING * (26-Apr-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST *	39.30	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING * (29-Dec-21) 2)CARE BB; Stable / CARE A4 (15-Sep-21)	1)CARE B+ / CARE A4; ISSUER NOT COOPERATING * (18-Jun-20)	1)CARE BB / CARE A4; ISSUER NOT COOPERATING * (26-Apr-19)
3	Fund-based - LT-Term Loan	LT	37.90	CARE BB; Stable				

\* Long Term / Short Term

**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
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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