MSR India Limited
June 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.00	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Short-term Bank Facilities	3.00	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**13.00 (Rupees Thirteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Rating Rationale

The ratings assigned to the bank facilities of MSR India Limited (MSR), continue to derive strength from experienced management team, wide product range, competitive advantage with brand recall and favorable industry prospects of FMCG sector. The ratings, however, are tempered by profitability margins susceptible to increase in raw material costs, low entry barriers in the industry and working capital intensive operations. The ratings also factor in significant decline in profits during Q4FY19 and FY19 (refers to period April 1 to March 31), deterioration in capital structure owing to the increase in total debt during the period.

The company's ability to improve its scale of operations and profitability margins and maintain a comfortable capital structure and effective management of working capital borrowings would be the key rating sensitivities.

Outlook: Negative

The negative outlook reflects declining trend of profit over the past quarters which if continues may adversely impact the overall financial risk profile in near term. The outlook may be revised to 'Stable' if the company is able to demonstrate improvement in its key financial indicators and derive the envisaged benefit from the recently completed capacity augmentation.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & management team- The company was initially promoted by Mr. Srinivas Reddy and subsequently taken over by Mr. K.V. Rajasekhar Reddy. Mr. K.V. Rajasekhar Reddy is a Mechanical Engineer with an overall experience of five years. He is ably supported by Mr. Malla Reddy who is a doctorate in Corporate Social Responsibility and expertise's in the field of marketing. Furthermore, the management team comprises of industry professionals having significant experience in the related domain of business operations.

Increase in total operating income albeit decline in profitability margins– During FY19, the total operating income of the company has registered a year on year growth of 36.67% to Rs. 191.50 crore during FY19 as against Rs. 140.10 crore during FY18. PBILDT also continues to remain steady in FY19. However, because of high input cost and significant increase in the borrowing cost, the profitability margins of the company deteriorated during Q4FY19 and FY19.

Competitive Advantage with brand recall- Considering the harmful effecting of usage of plastic and at the same time benefits of using copper utensils is gradually gaining its predominance. Understanding the business opportunity, MSR ventured into designing of a seamless copper water bottle which is marketed under the brand ***'Dr. Copper'*** along with various health benefits of using it. The company has a competitive advantage as there are very few players in the unorganized market and no competitor in the organized market. Further, the company developed a strong brand image through print media and TV advertisements with brand recall for 'Dr. Copper'. The company has also endorsed a film star for branding and promotion of copper water bottles.

Favorable industry prospects- FMCG is the 4th largest sector in the Indian economy and is valued at about USD 49 billion as of 2016 and is expected to grow by about 9-9.5% in FY19.The FMCG sector has grown from US$ 31.6

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

billion in 2011 to US$ 52.75 billion in 2017-18. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 27.86 per cent to reach US$ 103.7 billion by 2020. The sector is projected to grow 11-12 per cent in 2019.

Key Rating Weaknesses

Weakening capital structure and debt coverage indicators: The capital structure of the company, although deteriorated as on March 31, 2019 it remained satisfactory with overall gearing ratio at 1.02x as compared to 0.36x as on March 31, 2018. Further, total debt to GCA has deteriorated significantly from 2.54x during FY18 to 9.63x during FY19 due to increase in working capital borrowings. Further, interest coverage declined to 2.79x during FY19 from 6.48x during FY18 due to increase in interest expense during the year.

Moderate Liquidity and working capital intensive nature of operations- Operations of MSR, being manufacturing of copper water bottles and consumer goods, are working capital intensive in nature. The working capital cycle of the company deteriorated from 27 days in FY18 to 54 days in FY19 mainly due to on account of increase in inventory level of copper in order to cater the demand for copper water bottles. The company procures the copper slug from local vendors to whom payments are made within 30 days. On the other hand, MSR allows an average credit period of 15-20 days to the local clients. For the consumer goods division, the company needs to maintain inventory of 30 to 45 days depending upon the order status and collects payments within 30 days. Payment to these vendors is made within 30 days, thus, leading to an overall operating cycle of 60 - 65 days. The liquidity position of the company remained moderate with working capital utilization remained more than 90% during the past twelve months period ending March, 2019.

Low entry barriers- MSR being in manufacturing of copper water bottles and consumers goods would face competition from organized and unorganized sector on account of low entry barriers. Further, the competition among the players may exert pressure on the margins.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

About the Company

MSR India Limited (MSR) was incorporated in 2002 by Mr. Srinivas Reddy and was subsequently taken over by Mr. K.V. Rajasekhar Reddy. The company, over the past ten years, has been associated with various business segments viz. power, trading of milk products & consumer goods and presently (since July 2016) it has been engaged in manufacturing of copper water bottles and consumer goods such as Pasta, Vermicelli and Chakki Atta. Consumer goods such as Pasta, Vermicelli, Chakki Atta are marketed under the brand name "Today" and copper water bottles are marketed under the brand "Dr. Copper". Also, the company manufactures battery cell cases for aerospace & defense industry. The manufacturing facilities of the company are located at Jeedimetla and Bachupally Industrial Area in Hyderabad, Telangana State with total installed capacity of 21.90 lakh units per annum of Copper water bottle, 1000 MT of processing Pasta and Vermicelli and 9000 MT of processing Chakki atta.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	140.10	191.50
PBILDT	6.29	6.45
PAT	1.77	0.62
Overall gearing (times)	0.36	1.02
Interest coverage (times)	6.48	2.79

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

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 - LT-Cash Credit	-	-	-	10.00	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	3.00	CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (05-Jul-18)	1)CARE BBB-; Stable (14-Aug-17)	-
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A3	-	1)CARE A3 (05-Jul-18)	1)CARE A3 (14-Aug-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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