MSR India Limited

August 14, 2017

Ratings

Instrument	Amount (Rs. Crore)	Ratings[1]	Remarks
Long-term bank facilities	10.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Assigned
Short-term bank facilities	3.00	**CARE A3 (A Three)**	Assigned
Total	**13.00 (Rs. Thirteen crore only)**		

Rating Rationale

The ratings assigned to the bank facilities of MSR India Limited (MSR) derive strength from experienced management team, wide product range, moderate profitability margins, comfortable overall gearing and debt coverage indicators, competitive advantage with brand recall and favorable industry prospects of FMCG sector. The ratings, however, are tempered by product and revenue concentration risk, volatile total operating income during FY15-FY17 (refers to period April 1 to March 31), low entry barriers in the industry and working capital intensive operations.

The company's ability to stabilize and scale up operations, improve profitability margins and efficiently manage its working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced 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.

Improvement in profitability margins albeit decline in total operating income in FY17: The total operating income witnessed a decline of about 36% in FY17, after witnessing more than double growth in FY16. The reduced revenue was due to changing nature of operations from trading of milk products and consumer goods to manufacturing of copper water bottles and consumer goods such as Pasta, Vermicelli and Chakki Atta. However, the profitability margins of the company has remained moderate over the past three years as PBILDT margin stood at 3.93% (FY16: 1.12) during FY17.

Comfortable capital structure and healthy debt coverage indicators- As on March 31, 2017 the debt to equity and overall gearing remained comfortable at 0.01x. The debt coverage indicator, total debt to GCA of the company has remained healthy at 0.05x in FY17 (0.07x in FY16). The interest coverage indicator of the company also remained comfortable 144.63x in FY17 (117.49x in FY16).

Competitive Advantage with brand recall- The benefits of using copper utensils is gradually gaining its predominance given the harmful effecting of usage of plastic . Understanding the business opportunity, MSR ventured into designing of a 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.

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

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 FY18. The consumption of the goods produced by the company has also been on the higher side due to increased demand from the growing 'earning population' (age group 15-60) of the country. Taking into account the age group below 25 years being one of the highest spending age group, the current demographic dynamics are expected to boost the retail sales in India. Thus, the increasing demand for the products manufactured by company and rising disposable incomes augurs well for MSR.

Key Rating Weaknesses

Working capital intensive nature of operations: Operations of MSR, being manufacturing of copper water bottles and consumer goods, are working capital intensive in nature. For the copper water bottles division payments are made within 30 days and the company needs to maintain an average inventory of 45 days. 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 vendors is made within 30 days, thus, leading to an overall operating cycle of 60 - 65 days. The average working capital utilization of the company for the last 3 months ended June 2017 was 18.30%.

Product concentration risk: During FY17, MSR derived 75% of revenue from sale of consumer goods leading to increased dependence on a single segment and posing the company to product concentration risk. Nevertheless the company is in the process of introducing a new product Energiam' (which is a ready to eat powder containing necessary proteins and vitamins) which will partially offset the product concentration risk. Besides Energiam, copper water bottles contributed 24% to the overall revenue in FY17.

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 marketed under the brand name "Today", copper water bottles which 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 with total installed capacity of 12 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)	FY16 (A)	FY17 (A)
Total operating income	177.10	112.64
PBILDT	1.99	4.43
PAT	0.80	0.91
Overall gearing (times)	0.00	0.01
Interest coverage (times)	117.49	144.63

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-; Stable
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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A3	-	-	-	-

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