

**MSR India Limited**  
 September 23, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	10.00	<b>CARE BB; Stable (Double B; Outlook: Stable)</b>	<b>Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)</b>
Short-term Bank Facilities	3.00	<b>CARE A4 (A Four)</b>	<b>Revised from CARE A3 (A Three)</b>
<b>Total facilities</b>	<b>13.00 (Rupees Thirteen Crore only)</b>		

*Details of instruments/facilities in Annexure-1*

**Rating Rationale**

*The revision in the ratings assigned to the bank facilities of MSR India Limited (MSR) is on account of subdued financial performance in FY19 (refers to the period April 01 - March 31) and Q1FY20 (refers to the period April 01 - June 30) marred by deterioration in the overall financial risk profile along with deterioration in capital structure and weakening of operating cycle. Also, the ratings take cognizance of relocation of the manufacturing unit which impacted the production of copper bottles during Q4FY19 and Q1FY20. The ratings, nevertheless, remain underpinned by experienced promoters and management team, improvement in total operating income albeit decline in profitability margins, competitive advantage with strong market presence, moderate liquidity and stable industry growth prospects.*

*The ability of the company to increase its scale of operations, increase the profitability levels and improve its working capital cycle are the key rating sensitivities.*

**Detailed description of the key rating drivers****Key Rating Weakness*****Decline in profitability albeit increase in total operating income in FY19***

Though the company's total operating income (TOI) showed an improvement by registering a y-o-y growth of 21%, the operating profitability margin of the company deteriorated by 69 bps due to delay in relocation of the manufacturing plant leading to the production process being stalled for almost five months in FY19. During this period, the company had increased their concentration on FMCG trading which is a high volume but low margins activity. Also, the PAT level decreased during FY19 due to additional interest expenses incurred on account of increased debt as well as other one time banking charges imposed by the new lenders.

***Moderate capital structure and debt coverage indicators***

The capital structure of the company, although deteriorated as on March 31, 2019 it remained comfortable with overall gearing ratio at 1.00x as compared to 0.36x as on March 31, 2018. The deterioration in overall gearing was on account of increase in total debt levels in FY19 as compared to FY18. Further, total debt to GCA has deteriorated significantly from 2.54x during FY18 to 9.42x during FY19 due to increase in working capital borrowings. Also, interest coverage declined in FY19 due to increase in interest expense during the year.

***Elongated operating cycle in FY19***

The working capital cycle of the company deteriorated from 27 days in FY18 to 61 days in FY19 mainly due to high levels of inventory as on March 31, 2019 comprising of FMCG inventory and RM for copper bottles that the company procured in bulk as it had envisaged that the copper prices would rise from April 2019. Further, the company had no significant reliance on creditors during the year as its purchases were majorly on cash thereby shrinking the average creditor days to 14 in FY19 (FY18: 38 days) which also led to stretched operating cycle.

**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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### **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.

### **Moderate Liquidity**

The liquidity position of the company is adequate marked by sufficient accruals to meet repayment obligations for FY20, although working capital limits are almost fully utilised with average utilisation over 91% for the last twelve months period ended August, 2019 and modest cash balance, the capital structure remains comfortable with gearing at unity as on March 31, 2019. The current ratio also was satisfactory at 1.18x as on March 31, 2019.

### **Stable industry prospects**

The Indian FMCG market is expected to grow at a CAGR of nearly 21% by 2020. The FMCG industry is expected to record a demand led growth and the general industry sentiment is positive and optimistic for medium and longer terms. The Indian FMCG is estimated to grow owing to substantial increase in the disposable income, rise in rural consumption, significant change in lifestyle choices and consumer behaviour. An increasing demand from the rural and tier-2 population with increasing annual income along with development initiatives led by the new government will be the major influencers of the FMCG sector.

**Analytical approach:** Standalone

### **Applicable Criteria**

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

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's Methodology for Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

### **About the Company**

In 2007, MSR India Limited (MSR) had acquired Star Leasing Limited and changed its name to Remidicherla Power Ltd and ventured into power sector. Further, the company entered into Infrastructure segment and changed the name to Remidicherla Power & Infra Limited. Later during FY14, the company has moved into trading of Milk products & consumer goods and renamed the company to MSR India Limited (MSR). Further, after establishing a proper distribution network MSR ventured into manufacturing of copper water bottles and consumer goods such as Pasta, Vermicelli and Chakki Atta since July 2016. The company was initially promoted by Mr. Srinivas Reddy and subsequently taken over by Mr. K.V. Rajasekhar Reddy who is a Mechanical Engineer and has an overall experience of a half decade. Further, he is ably supported by highly qualified and experienced management. The company is engaged in manufacturing of 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 & defence industry.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	140.10	170.03
PBILDT	6.29	6.45
PAT	0.97	0.50
Overall gearing (times)	0.36	1.00
Interest coverage (times)	6.49	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 BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	3.00	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 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 BB; Stable	1)CARE BBB-; Negative (06-Jun-19)	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 A4	1)CARE A3 (06-Jun-19)	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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