Madan Udyog Private Limited

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total facilities	10.00 (Rs. Ten crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The rating assigned to the bank facilities of Madan Udyog Private Limited (MUPL) is primarily constrained on account of its financial risk profile marked by moderate solvency position and working capital intensive nature of business. The rating, further, constrained on account of implementation risk associated with its debt funded project and vulnerability of margins to volatile raw material (rubber) prices.

The rating, however, favorably takes into account experienced management with established customer base. The ratings, further, derive strength from moderate profitability margins.

The ability of the company to increase in the scale of operations with improvement in profitability and efficient management of working capital would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weakness

Moderate solvency and working capital intensive nature of business

The capital structure of MUPL stood moderate marked by an overall gearing of 1.67 times as on March 31, 2018, improved from 1.71 times as on March 31, 2017 due to higher working capital bank borrowings. Further, debt service coverage indicators also stood moderate with total debt to GCA of 11.83 times as on March 31, 2018, marginally deteriorated from 11.67 as on March 31, 2017 mainly due to proportionately higher increase in total debt level than GCA level and interest coverage ratio stood at 1.69 times in FY18 as against 1.57 times in FY17.

Further, the business of the company is working capital intensive marked by full utilization of working capital bank borrowing during last 12 months ended October 2018 and elongated operating cycle of 227 days in FY18. The company receives payment from customers in 5-6 months, and maintains inventory of 3-4 months. Due to high inventory, the current ratio stood at 1.20 times as on march 31, 2018 whereas quick ratio stood below unity at 0.90 times as on March 31, 2018. Further, the cash flow from operating activities has declined from Rs.4.43 crore in FY17 to Rs.2.42 crore in FY18 due to higher working capital gap. It has cash and bank balance of Rs.1.05 crore as on March 31, 2018.

Project implementation risk

MUPL undertook a project to start manufacturing unit for manufacturing of Tyre. The company had envisaged total project cost of Rs.5.33 crore towards the project to be funded through term loan of Rs.4.00 crore and remaining through unsecured loans. Till October 31, 2018, it has incurred total cost of Rs.1.33 crore towards the project funded through unsecured loans.

Volatility in raw material (rubber) prices

The major raw materials used are natural rubber, synthetic rubber, fillers such as carbon black, which are prone to high price volatility. With high inventory holding period, the profitability of the company is exposed to fluctuation in raw material prices.

Key Rating Strengths

Experienced management with established customer base

MUPL was incorporated in the year 2010 and hence, has a track record of 8 years in the industry. Mr. Shyam Sunder Agarwal, Director, has around five decades of experience in this line of business. He is well supported by his son Mr. Anand Khandelwal who has around four decades of experience in the same line of business. Mr. Antush Khandelwal (Grandson of Shyam Sunder Agarwal), is Charted Accountant by qualification and CFO of company and look after the finance department. Further, the company sells its product to Hercules Cycles and Hero and generates around 17% of Total Operating Income (TOI) from them.

Moderate profitability margin

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

During FY18, the scale of operations of the company stood moderate marked by Total Operating Income (TOI) of Rs.27.27 crore. However, TOI of the company has improved by 10.67% over FY17 mainly due to increase in demand.
The profitability of the company stood moderate with PBILDT and PAT margin of 12.30% and 2.12% respectively in FY18 (FY refers to April 01 to March 31). PBILDT margin has declined by 115 bps over FY17 owing to increase in material cost as well as manufacturing expenses. With decline in PBILDT margin, PAT margin of the company has declined by 34 bps. The company has registered Total Operating Income of Rs.16.45 crore till October 31, 2018.

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

About the Company
Nagpur based (Maharashtra) based Madan Udyog Private Limited (MUPL) was incorporated in 2010 by Mr. Shyam Sunder Agarwal and Mr. Anand Agarwal. MUPL is engaged in the production of jointed and moulded rubber tubes for bicycle and rickshaw. The manufacturing facility is located at Sinnar, Nashik and has an installed capacity of 12 Lakh tubes per month. It purchases the major raw material i.e raw rubber sheet from Cochin. It has total 12 offices located in different-different states like Nagpur, Raipur, Jabalpur, Calcutta, Patna, Kathiyar, Chennai, Banglore, Jaipur, Lucknow, Allahabad and Ludhiana. The tubes manufactured by MUPL are sold under the brand name "Madan". MUPL had accredited with the quality certifications of ISO 9001:2008.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	24.65	27.27
PBILDT	3.32	3.36
PAT	0.61	0.58
Overall gearing (times)	1.71	1.67
Interest coverage (times)	1.57	1.69

A: Audited

Status of non-cooperation with previous CRA: None
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 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Stable	-	-	-	-

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