Madan Udyog Private Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	3.19	**CARE BB; Stable (Double B; Outlook: Stable)**	Assigned
Long-term Bank Facilities	14.00 (Enhanced from 10.00)	**CARE BB; Stable (Double B; Outlook: Stable)**	Reaffirmed
Long Term/ Short Term Bank Facilities	1.00	**CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)**	Assigned
Total Facilities	**18.19 (Rs. Eighteen Crore and Nineteen Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Madan Udyog Private Limited (MUPL) continues to remain constrained on account of its moderate capital structure, weak debt coverage indicators and stretched liquidity during FY20 (FY refers to the period April 1 to March 31). The ratings are further constrained on account of its presence in highly fragmented industry and competitive industry and susceptibility to volatility in raw material prices.

The rating, however, derive strength on account of experienced management with established customer base and moderate scale of operations with moderate profitability.

Rating Sensitivities

Positive factors

- Increase in scale of operations with TOI of more than Rs. 60 crore on sustained basis with similar improvement in gross cash accruals.
- Improvement in capital structure with overall gearing below 1.25 times on sustained basis along with improvement in its debt coverage indicators.

Negative Factors

- Decline in scale of operations with TOI below Rs. 25 crore on sustained basis.
- Deterioration in capital structure with overall gearing above 2.50 times due to increase in working capital intensity or any major debt funded capex.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate capital structure and weak debt coverage indicators: MUPL's capital structure remained moderate as indicated by overall gearing of 1.99 times as on March 31, 2020 (1.98 times as on March 31, 2019) on account stable debt levels. The debt coverage remained weak during FY20 as indicated by a total debt to GCA of around 12.28 years as on March 31, 2020 (12.31 years as on March 31, 2019) and PBILDT Interest coverage of 1.76 times in FY20 (1.79 times in FY19). MUPL recently undertook a project to start unit of manufacturing tire tubes for two wheeler vehicles and E-Rickshaws at cost of Rs.5.33 crore, which was funded through term loan of Rs.4.00 crore and remaining through unsecured loans. The company expects to start commercial operations in Q3FY21.

Presence in highly fragmented and competitive industry: MUPL operates in the highly fragmented rubber industry which is characterized by few prominent players and large number of unorganized players at the regional level, which cater to the local demand. In addition, entry barriers for new players are relatively low due to low capital and technological investment which results in stiff competition among the domestic players. The high competition in the fragmented rubber industry restricts the ability of MUPL to completely pass on volatility in input cost to its customers.

Susceptibility to volatility in raw material 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.

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

Key Rating Strengths
Experienced management with established customer base: MUPL was incorporated in the year 2010 and hence, has a track record of 10 years in the industry. Mr. Anand Khandelwal, Director, has around four decades of experience in this line of business. He is well supported by his son Mr. Antush Khandelwal, a Chartered Accountant by qualification and CFO of company and look after the finance as well as overall operations of the company. Further, the company also sells its product to Hercules Cycles and Hero with which it has established cordial business relations.

Moderate scale of operations and profitability: Despite a 13% decline in scale of operations marked by total operating income (TOI) of Rs.27.37 crore in FY20 (Rs. 31.42 crore in FY19); MUPL registered a PBILDT margin of 13.91% in FY20 (11.37% in FY19), increase in PBILDT margin was on account of lower cost of materials consumed. Gross cash accruals stood at Rs. 1.46 crore at the end of FY20 compared to Rs. 1.39 crore in the previous year. The company has reported TOI of Rs. 8.51 crore for 4MFY21.

Liquidity – Stretched
MUPL's liquidity remained stretched marked by elongated operating cycle and full utilization of working capital limits. Operating cycle elongated to 246 days in FY20 (200 days in FY19) on account of higher average collection period of 160 days and an average inventory period of 129 days. Utilization of working capital limits remained high at 95% for the 12 months ended August 2020. The company receives payment from customers in 5-6 months, and maintains inventory of 3-4 months. MUPL reported cash accruals of Rs. 1.46 crores during FY20 as against repayment obligation of around Rs. 0.63 crore for FY21. The operations of the company were not impacted during nationwide lockdown declared by Government on account of Covid pandemic. MUPL has availed the moratorium benefit from March 2020 for a period of three months on its bank facilities in line with RBI announcement in the wake of Covid pandemic.

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
Rating Methodology – Manufacturing Sector
Financial ratios - Non- Financial Sector
Liquidity analysis of Non-Financial sector

About the company
Nagpur based (Maharashtra) based MUPL was incorporated in 2010 by Mr. Shyam Sunder Khandelwal and Mr. Anand Khandelwal. MUPL is engaged in the production of jointed and molded rubber tubes for bicycles. 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, Bangalore, 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 of MUPL are tabulated below:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	31.42	27.37
PBILDT	3.57	3.81
PAT	0.78	0.52
Overall gearing (times)	1.98	1.99
Interest coverage (times)	1.79	1.76

A: Audited

MUPL has reported TOI of Rs. 8.51 crore for 4MFY21.

Status of non-cooperation with previous CRA: Acuite has put rating assigned to the bank facilities of MUPL in to 'Non Cooperation' vide press release dated March 3, 2020 on account of non-cooperation by MUPL with Acuite's efforts to undertake a review of the rating outstanding.
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	-	-	-	14.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	August 2025	3.19	CARE BB; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	1.00	CARE BB; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	14.00	CARE BB; Stable	1)CARE BB; Stable (25-Sep-20)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (28-Jan-20) 2)CARE BB; Stable (05-Apr-19)	-	-
2.	Fund-based - LT-Term Loan	LT	3.19	CARE BB; Stable	-	-	-	-
3.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	1.00	CARE BB; Stable / CARE A4	-	-	-	-

**Issuer did not cooperate; based on best available information*

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the instrument	Complexity level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Letter of credit	Simple

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.

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