

Manchukonda Prakasham Industries India Private Limited

December 11, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	5.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long/Short-term Bank Facilities	25.00	CARE A; Stable/CARE A1 (Single A; Outlook: Stable /A One)	Reaffirmed
Total	30.00 (Rupees Thirty crores only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manchukonda Prakasham Industries India Private Limited (Manchukonda) continue to derive strength from the experienced promoters with established track record of operations, established and geographically diversified client base coupled with low client concentration risk, a strong in-house manufacturing facility, favorable industry outlook and comfortable financial risk profile with adequate liquidity. The ratings are, however, tempered by decline in total operating income and profitability margins during FY18 (refers to the period April 01 to March 31), working capital intensive nature of business and product and supplier concentration risk.

The ability of the company to consistently add new orders and thereby expand the scale of operation, execute the projects in hand and recover contract proceeds in a timely manner shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with established track record of operations

Manchukonda is promoted by Mr. Manchukonda Prakasham, chairman. He has a wide experience of over three decades in various domains including trading, logistics and manufacturing and has established strong relationships with various industry segments. He has been awarded the 'Pearls of Andhra Pradesh' award as First Best SSI Entrepreneur for 'Par Excellence' by the Chief Minister of Government of Andhra Pradesh for the year 2003 -2004. The executive directors Mr. M. Ravi Kumar and Mr. M. Surender, are sons of the promoter, who look after day to day operations. Besides, the promoters are ably supported by qualified and experienced personnel in various key functional areas.

Established and geographically diversified client base coupled with low client concentration risk

The company caters to both state electricity boards and corporate customers namely Telangana state electricity board, NCC Limited, Larsen & Toubro Limited, Tamil Nadu Generation and Distribution Company Limited, Bajaj Electricals, Shirdi Sai Electricals Limited, etc. Further, the company has established long term relations with its clients and has been receiving repeat orders from them. The top ten clients contributed 65% of the revenue in FY18. Further, being able to manufacture in five different locations the company executes orders from various states across the country.

Strong in-house manufacturing facility

The company is the one of the largest manufacturer of Pre – Stressed Cement Concrete (PSCC) poles in South Asia with a production capacity of 1.9 million poles split across five plants located in five major states in India, viz., Telangana, Andhra Pradesh, Maharashtra, Madhya Pradesh and Uttar Pradesh. The plants cater to rural electrification demands by various state governments and corporate customers in India.

Comfortable financial risk profile

The capital structure of the company remained comfortable with both debt to equity and overall gearing are below unity at 0.09x and 0.09x as on March 31, 2018 as against 0.01x and 0.01x as on March 31, 2017 respectively. The total debt to GCA has deteriorated from 0.03x in FY17 to 0.60x in FY18 on account of availing term loans and decline in net profit levels. The Interest coverage although deteriorated marginally from 33.12x in FY17 is still comfortable at 21.04x in FY18. The decline in interest coverage ratio was on account of decline in the PBILDT from Rs.35.71 crore in FY17 to Rs.27.34 crore in FY18.

Adequate liquidity position

The company has comfortable liquidity position with free cash balance and liquid funds of Rs.26.59 crore as on September 30, 2018 as against Rs.17.11 crore as on March 31, 2018 and current ratio of 14.41x as on March 31, 2017

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

(28.15x as on March 31, 2017). Further, the average maximum working capital utilization of the company for the 12 months ended October 2018 remained low at around 3.85% as the company is utilizing internal cash accruals to fund its working capital requirement. The company has term debt obligation of about Rs.0.80 crore during next one year and considering current cash accruals along with liquid funds available it appears that the debt obligations can serviced comfortably.

Favorable industry outlook

The demand for PSCC poles has picked up pace with the government introducing Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) for rural electrification. Under the scheme, the Ministry of Power has sanctioned 921 projects to electrify 1,21,225 un-electrified villages. The scheme has therefore resulted in substantial demand for PSCC poles.

Key Rating Weaknesses

Decline in total operating income and profitability margins

During FY18, the company witnessed decline in its total operating income by 2.36% to Rs.188.32 crore from Rs.192.88 crores in FY17 owing to introduction of GST regime which led to operational hiccups. Further, PBILDT margin of the company deteriorated by about 607 bps from 20.59% during FY17 to 14.52% during FY18 on account of subdued sales as well as pressure on the pricing. Further in line with PBILDT margin, PAT margin also deteriorated by 386 bps from 11.79% in FY17 to 7.96% in FY18. The company has recorded total operating income of Rs.145.15 crore (representing 50.05% of the total operating income projected for FY19). Further, the PBILDT margin of the company stood at 13.97% and PAT margin stood at 8.11%.

Working capital intensive nature of operations

The company's average working capital cycle deteriorated on account of deterioration in the receivables and inventory turnover period. The average inventory period of the company deteriorated due to stocking of inventory on account of delay in payment of past dues as the company follows strict credit receivable policy where the supply is halted in case pending payments. However, the company's receivables are LC backed and it also receives customer advances of around 15% -25% of the order value. Further, The Company till FY17 discounted these LC's to raise liquidity, however, the same was discontinued which has led to an increase in receivables in FY18.

Moderate order book position

As on November 12, 2018, the company has an order book of Rs.181.80 crore (Rs.102.41 crore as on January 12, 2017) and is expected to be executed by Q1FY20. The EPC orders contribute around 41% of the order book whereas balance 59% of the order book is from State power distribution companies and other companies.

Product and supplier concentration risk

The company derives majority of its revenue from the sale of the PSCC poles. The company's product portfolio is limited to utility poles for the power segment. These poles help in transmission of power by supporting wires that carry electricity. Nearly 80-85% of the company's total sales are generated from the sale of PSCC cables. Manchukonda has a strong market position in the domestic PSCC industry

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Manchukonda Prakasham Industries India Private Limited (Manchukonda) was incorporated in 2008 as a private limited company by taking over the partnership firm Manchukonda Prakasham & Co. Manchukonda is promoted by Mr. Manchukonda Prakasham as the Founder and Managing Director and other family members as shareholders. Manchukonda Prakasham and Co. has been engaged in the business of executing contracts for laying electrical lines and sub-stations, cable works, civil & building works and manufacturing of Pre- Stressed Cement Concrete (PSCC) poles since 1995. Post to take over, Manchukonda has been concentrating solely on manufacturing of PSCC poles. The Company has five manufacturing facilities spread across Telangana, Andhra Pradesh, Maharashtra, Uttar Pradesh and Madhya Pradesh with the Telangana facility being the biggest manufacturing facility in South Asia with a production capacity of 1 million

tonnes per annum. The total capacity of all the 5 plants is 1.9 million poles per annum. The Company supplies PSCC poles to both Government as well as corporate customers. Further, the Company is ISO 9001:2008 certified.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	192.88	188.31
PBILDT	39.71	27.34
PAT	22.74	15.00
Overall gearing (times)	0.01	0.09
Interest coverage (times)	38.98	26.82

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

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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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	-	-	-	5.00	CARE A; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	25.00	CARE A; Stable / CARE A1

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	5.00	CARE A; Stable	-	1)CARE A; Stable (15-Feb-18)	1)CARE A; Stable (10-Mar-17) 2)CARE A- (12-Apr-16)	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	25.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (15-Feb-18)	1)CARE A; Stable / CARE A1 (10-Mar-17) 2)CARE A- / CARE A2+ (12-Apr-16)	-

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