

August 29, 2022

MCON Rasayan Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	3.40	[ICRA]B+(Stable); assigned
Long-term– Fund-based Term Loan	5.91	[ICRA]B+(Stable); assigned
Long Term– Unallocated	0.69	[ICRA]B+(Stable); assigned
Total	10.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the healthy growth in MCON Rasayan Private Limited's (MCon) scale of operations, though at a low base, and its diversified customer base, reducing dependence on single customer or industry. Going forward, ICRA expects the revenue growth to remain healthy from the current levels as a result of capacity and geographical expansion. The construction industry witnessed demand recovery in FY2022, which is expected to sustain in the current fiscal as well, providing a traction to MCon's revenue generation.

The rating, however, is constrained by the company's small scale of operations. The rating also considers the transactions between the company and its sister concern which constitute a significant portion of revenues. Also, the company's profitability remains vulnerable to raw material price fluctuations. Further, the rating also considers the pressure on liquidity and debt metrics due to the increase in debt to fund expansion as well as the associated working capital requirements.

Key rating drivers and their description

Credit strengths

Diverse product portfolio with extensive track record in manufacturing construction materials – The company is engaged in the manufacturing of waterproofing chemicals, anti-corrosion coating, sealant and other construction chemicals etc. The products find application in various industries, such as plastic, paints, coating, roadways, waterproofing and construction chemicals. The promoters have an experience of more than a decade in manufacturing the products. The application of the products in various industries enables the company to alter its sales mix as per the market demand, reducing its dependence on a single product or industry.

Moderate customer concentration risk – The customer base of the company has remained highly diversified with its top-10 customers accounting for 18% of the total revenue in FY2022, reducing its dependence on single customer.

Capacity and geographical expansion offer positive outlook on revenue– The ongoing capacity expansion, which is expected to be completed by September 2022, is expected to ramp up the capacity to ~1,15,000 MTPA from 40,000 MTPA. Also, the company plans to foray into North India, which will give a boost to the revenue. The revenue growth is also supported by the Thane and Mumbai regions, where demand for the company's product is extremely high. In FY2022, the revenue jumped to Rs. 22.3 crore from Rs. 9 crore in FY2021 as a result of higher sales realisation. Going forward, the company is expected to achieve significant growth in revenues because of the capacity and geographical expansion.

Credit challenges

Working capital intensive nature of operations – The working capital requirement of the industry the company operates in is high due to latency in payments from debtors. Moreover, cement and other raw materials have to be stored as the nature of the business is demand-based and it is a usual practice of the company to store the raw materials. The working capital requirement is expected to increase post the completion of expansion to support the various functions of the business.

Pressure on liquidity position in the short term – Elevated working capital requirements and weak cash flow generation from operations have necessitated external funding requirements. . The upcoming debt-funded capex is likely to add to the debt and keep the debt metrics weak in the medium term.

Intergroup transactions form significant part of operating revenues and debtors – A significant portion of the turnover is being contributed by the operating revenues from RK Traders, a sister concern of MCON Rasayan. RK Traders contributes 41% of the total revenue of FY2022. The company only manufactures and supplies to distributors and wholesalers, who sell them further to end-users like builders and construction companies. The company avoids direct selling to the end-users as the payment terms require elongated credit periods.

Liquidity position: Stretched

MCON's liquidity position remains stretched amid inadequate free cash flow generation from operations. Moreover, the limit utilisation remains almost full, leaving limited cushion in the same.

Rating sensitivities

Positive factors – ICRA could upgrade Mcon's rating if there is a substantial growth in revenues and improvement in the operating margins and liquidity position.

Negative factors – Negative pressure on Mcon's rating could arise if the revenues and operating margins decline, lowering the cash flows on a sustained basis. Deterioration in the working capital cycle, impacting the company's liquidity position, could also be a trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

MCON Rasayan Private Limited (MCON) is a manufacturer and supplier of construction chemicals & surface paint finishing products. MCON Rasayan Private Limited was established on September 22, 2016, under the directorship of Mr. Mahesh Ravji Bhanushali, Mrs. Puja Mahesh Bhanushali and Mr. Chetan Ravji Bhanushali. The company manufactures and supplies a range of terrace waterproofing chemicals, adhesive bond, wall putty, mortar, micro mortar, concrete admixtures, roof waterproof coating, concrete curing compound, polymer mortar, hard floor, construction chemicals, paints, waterproof products, flooring products etc. Its current manufacturing capacity is 40,000 MTPA. With the proposed augmentation of the new manufacturing facility at Ambeti village near Vapi in Gujarat, the company's production capacity will increase during the year to 11,5,000

MTPA from 40,000 MTPA. The company's registered office is in Mumbai. It has two manufacturing facilities at Umbergaon and Navsari.

Key financial indicators (audited)

GMMPL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	9.0	22.3
PAT (Rs. crore)	0.2	0.5
OPBDIT/OI (%)	10.6%	7.0%
PAT/OI (%)	2.4%	2.3%
Total outside liabilities/Tangible net worth (times)	1.8	2.8
Total debt/OPBDIT (times)	3.7	4.7
Interest coverage (times)	2.4	3.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023
					29-Aug-22
1	Fund-based Facilities	Long-term	3.40	3.37	[ICRA]B+(Stable)
2	Term Loan	Long-term	5.91	5.91	[ICRA]B+(Stable)
3	Unallocated	Long-term	0.69	-	[ICRA]B+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based	Simple/Very Simple
Long Term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	February 26, 2022	8.4%	2024	5.91	[ICRA]B+(Stable)
NA	Overdraft	NA	8.4%	NA	3.4	[ICRA]B+(Stable)
NA	Unallocated	-	-	-	0.69	[ICRA]B+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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