

November 24, 2022

## Meera and Ceiko Pumps (P) Ltd.: Long-term rating upgraded to [ICRA]BB(Stable) from [ICRA]B+(Stable); short-term rating reaffirmed and ratings removed from “ISSUER NOT COOPERATING” category

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Term Loans	-	1.62	[ICRA]BB(Stable); upgraded from [ICRA]B+(Stable) and removed from “Issuer Not cooperating” category
Short-term – Fund-based	6.00	11.00	[ICRA]A4; reaffirmed and removed from “Issuer not cooperating” category
Long-term – Fund-based/ Cash Credit	2.00	2.00	[ICRA]BB(Stable); upgraded from [ICRA]B+(Stable) and removed from “Issuer Not cooperating” category
Short-term – Non-fund Based	3.90	6.38	[ICRA]A4; reaffirmed and removed from “Issuer not cooperating” category
Long-term/ Short-term – Unallocated	18.10	9.00	[ICRA]BB(Stable)/[ICRA]A4; Long term rating upgraded from [ICRA]B+(Stable) and short term rating reaffirmed and ratings removed from “Issuer Not cooperating” category
<b>Total</b>	<b>30.00</b>	<b>30.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings consider Meera and Ceiko Pumps (P) Ltd.’s (MACPPL) established track record in the hand pumps manufacturing industry, its reputed client base and healthy relationships with suppliers. The ratings consider MACPPL’s reputed clientele including Government agencies like Chhattisgarh Renewable Energy Development Agency (CREDA), Public Health Engineering Department (PHED), Rajasthan, and international organisations like UNICEF, which reduce the counterparty risks to an extent.

However, the company’s performance in FY2022 has been weaker than ICRA’s estimates as the company deferred execution of orders due to unfavourable raw material costs. Its revenues declined by 17% in FY2022 owing to lower execution. Moreover, the company’s order book has moderated to Rs. 72.2 crore as on September 30, 2022 (over Rs.105.5 crore as on June 30, 2021), which is 1.2 times its FY2022 revenues, limiting its revenue visibility to the near term. Moreover, high raw material costs and fixed price nature of contracts resulted in decline in operating margins to 5.8% in FY2022 from 16.4% in FY2020. While the company’s margins are expected to improve from FY2022 levels from moderation in raw material costs and annual price revisions, margins will remain lower (at ~7-9%) than historical levels owing to intense competition in the industry. Lower margins along with the proposed debt-funded capex towards conversion of lease-hold land to freehold land is expected to moderate the company’s debt protection metrics. The ratings also consider high working capital intensity because of an elongated receivable cycle from Government departments, which impacts the company’s liquidity position.

The Stable outlook on the [ICRA]BB rating reflects ICRA’s opinion that the company’s established presence in the industry and its healthy relationships with its customers will result in stable order inflows.

## Key rating drivers and their description

### Credit strengths

**Established track record in pumps manufacturing industry** – MACPPL has a vast experience of over five decades in the hand pumps manufacturing industry, leading to a reputed client base and healthy relationships with its suppliers. The company manufactures solar and hand pumps for irrigation and drinking water purposes.

**Reputed client base reduces counterparty risk to an extent** – The company has been working with several Government agencies like CREDA, OREDA, PHED Rajasthan, etc, which reduces the counterparty risk to an extent.

### Credit challenges

**Moderate scale of operations** – MACPPL has moderate scale of operations with a manufacturing capacity of 12,000 pumps per annum in the competitive pumps manufacturing industry. The company's capacity utilisation and revenues declined in FY2022 with slowdown in execution of orders. It had a modest order book of around ~Rs. 72.2 crore as on September 30, 2022 (moderated from Rs. 105.5 crore as on June 30, 2021), limiting revenue visibility to the near term. The company recorded Rs. 19.0 crore in 7M FY2023 and its revenue growth in FY2023 is expected to remain muted.

**High working capital intensity and stretched liquidity position** – The working capital intensity has been high at 68.6% in FY2022 owing to high receivables. The debtor days are stretched as most of its clients are Government agencies and the payment cycle is longer. Given the high working capital requirements, the company's liquidity position has been stretched with low free cash and negligible buffer in working capital limits. Moreover, the company is expected to undertake debt-funded capex of Rs. 25 crore towards conversion of lease-hold land to freehold land is expected to moderate its debt protection metrics. Equity portion of the capex is expected to be funded through realisation of receivables and security deposits, whose timeliness remains critical.

**Intense competition within the industry restricts profit margins** – The solar pumps manufacturing industry has numerous organised and unorganised players in the market and, thus, intense competition keeps a check on the price of products. Margins are also vulnerable to fluctuations in raw material costs. The company's operating margin declined to 5.8% in FY2022 from 16.4% in FY2020 owing to higher raw material costs and increase in competition. While its margins are expected to improve from FY2022 levels on account of moderation in raw material costs and annual price revisions, they will remain lower (at ~7-9%) than historical levels owing to intense competition in the industry. In addition, the company has long-term maintenance contracts, which could lead to a potential liability.

### Liquidity position: Stretched

MACPPL's liquidity is stretched as evidenced by its low cash and liquid investments of Rs. 0.8 crore as on March 31, 2022, and marginal buffer in working capital facilities. Further, the company is expected to incur ~Rs. 25 crore capex towards purchase of land for its current manufacturing premises, to be funded through term loans of ~Rs.18.0 crore and internal accruals of ~Rs. 7.0 crore. The company's ability to realise security deposits and receivables in a timely manner remains critical to fund this capex.

### Rating sensitivities

**Positive factors** – ICRA may upgrade MACPPL's ratings if healthy order inflow and timely execution lead to a sustained improvement in its scale of operations and profit margins. Improved liquidity position with an improvement in receivables days also remains critical for a rating upgrade.

**Negative factors** – Pressure on the ratings may arise if any further stretch in the receivables, or lower-than-expected revenues or accruals impact its liquidity position or debt protection metrics.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity.

## About the company

Meera and Ceiko Pumps (P) Ltd. was incorporated in 1985 for manufacturing hand pumps for irrigation and sanitation purposes. At present, the company manufactures solar photovoltaic (SPV) pumps along with hand pumps. The company markets its products all over India, especially in Chhattisgarh, Odisha, Rajasthan and Andhra Pradesh. MACPPL has a manufacturing facility in Musheerabad (Hyderabad, Telangana) with a capacity of 12,000 units per annum. Its operations are managed by Mr. Mahesh K Desai and family.

## Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. Crore)	77.2	64.4
PAT (Rs. Crore)	4.6	1.4
OPBDIT/OI	7.4%	5.8%
PAT/OI	6.0%	2.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.9
Total debt/OPBDIT (times)	3.7	6.6
Interest coverage (times)	3.4	1.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;

Source: Annual report of company and ICRA Research

## Status of non-cooperation with previous CRA: Applicable

CRISIL, in its rationale published on Meera and Ceiko Pumps Private Limited, dated October 21, 2021, put the ratings on 'Issuer not cooperating category' at CRISIL/B+/Stable/A4 based on best available information.

## Any other information: None

## Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount o/s as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		FY2022	FY2021	FY2020
					Nov 24, 2022	Oct 28, 2022	Jul 30, 2021	-	Jan 28, 2020
1	Fund based/ Cash credit	Long term	2.00	-	[ICRA]BB (Stable)	[ICRA]B+(Stable) "ISSUER NOT COOPERATING"	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)
2	Fund based/ Working capital facilities	Short term	11.00	-	[ICRA]A4	[ICRA]A4 "ISSUER NOT COOPERATING"	[ICRA]A4+	-	-
3	Non fund based/BG	Short term	6.38	-	[ICRA]A4	[ICRA]A4 "ISSUER NOT COOPERATING"	[ICRA]A4+	-	[ICRA]A4+
4	Fund based/ Term loans	Long term	1.62	1.62	[ICRA]BB (Stable)	-	-	-	-
5	Unallocated limits	Long term / Short term	9.00	-	[ICRA]BB (Stable) / [ICRA]A4	[ICRA]B+(Stable)/ [ICRA]A4 "ISSUER NOT COOPERATING"	[ICRA]BB+ (Stable) / [ICRA]A4+	-	[ICRA]BB+ (Stable) / [ICRA]A4+

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

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based/Cash credit	Simple
Short term – Fund based/ Working capital limits	Simple
Short term – Non fund based/ Bank guarantee	Very Simple
Long term – Fund based / Term loans	Simple
Long term / Short term – unallocated limits	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: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	<b>Term loans</b>	FY2022	NA	FY2027	1.62	[ICRA]BB(Stable)
NA	<b>Cash credit</b>	NA	NA	NA	2.00	[ICRA]BB(Stable)
NA	<b>Packaging credit</b>	NA	NA	NA	3.00	[ICRA]A4
NA	<b>ODBD</b>	NA	NA	NA	8.00	[ICRA]A4
NA	<b>Bank guarantee</b>	NA	NA	NA	6.38	[ICRA]A4
NA	<b>Unallocated</b>	NA	NA	NA	9.00	[ICRA]BB(Stable)/[ICRA]A4

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not applicable

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