June 21, 2024

Mungi Metalcraft LLP: Ratings upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	124.81	124.81	[ICRA]A- (Stable); upgraded from [ICRA]BBB+; outlook revised to Stable from Positive
Long-term/Short-term – Fund-based – Working Capital Facilities	55.00	55.00	[ICRA]A- (Stable)/ [ICRA]A2+; upgraded from [ICRA]BBB+ and [ICRA]A2; outlook revised to Stable from Positive
Short-term – Non-fund Based Facilities	1.00	1.00	[ICRA]A2+; upgraded from [ICRA]A2
Total	**180.81**	**180.81**	

Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings of Mungi Engineers Private Limited (MEPL), ICRA has taken a consolidated view of MEPL and its Group company, Mungi Metalcraft LLP (MMLLP), given the close operational, management and financial linkages between the two entities. Both companies operate in the auto components business, sharing common management and close financial ties. MEPL holds a 40% stake in MMLLP and has also provided a corporate guarantee for the bank debt availed by the latter. Together, these two entities are referred to as the Mungi Group/Group.

The upgraded ratings for the Mungi Group factor in the steady growth in its operations in recent years (5-year CAGR of 24.3%) and the expectation that this growth will be sustained in the near-to-medium term. This growth has been supported by a healthy share of business, steady offtake from key customers and regular enhancement in manufacturing capacities. The Group has maintained its operating margins at 8-9% in recent years, aided by some conversion cost hikes from key customers, increasing economies of scale and the presence of a pass-through mechanism for raw material price volatility. This has led to higher cash accruals and some improvement in debt protection metrics (total debt/ OPBIDTA of 2.5 times for FY2024 compared to 3.1 times for FY2022) for the Group. Further, the Mungi Group is expected to report healthy revenue growth in the near term, supported by steady volume offtake and increasing content per vehicle for the parts provided to its key customers.

Additionally, the ratings factor in the extensive experience of the Mungi Group's promoters in the domestic auto component industry. The Group also has an established business position and a diversified revenue stream from manufacturing sheet metal components and heavy metal fabrication, which are used in passenger vehicles (PV), commercial vehicles (CV), tractors and construction equipment (CE). The Group also benefits from its established relationships and a healthy share of business (SOB) with its key customers, Mahindra & Mahindra Ltd. (M&M) and Tata Motors Ltd. (TML).

The ratings, however, remain constrained by the high competitive intensity and limited value addition of the sheet metal business, resulting in limited pricing flexibility and moderate operating margins over the years. The Group is also exposed to high customer concentration risk, with its top two customers accounting for ~70% of its revenues in the recent fiscal years, and to the cyclicality of the auto industry, as the majority of revenues come from CV and PV segments. However, the Group's established relations and healthy SOB with leading OEMs mitigate this risk to an extent.

Given the capital-intensive nature of operations, the Group has incurred regular capex towards capacity enhancement, funded through a mix of debt and internal accruals. Nonetheless, steady ramp-up of the utilisation of incremental capacities has enabled the Group to largely sustain its return indicators. Moreover, ICRA notes that MEPL has provided corporate guarantees to some related parties, and any crystallisation of the contingent liability and its impact on the liquidity position will remain a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Established operational track record of the Group and extensive experience of the promoters in the auto ancillary industry – The Group has an established operational track record in the auto ancillary industry, supported by a strong manufacturing set-up, healthy clientele of leading domestic OEMs and qualified management. At present, the company is promoted by Mr. Vivek Mungi and family, with more than four decades of experience in this industry, which has led the company's growth over the years.

Established relationships with key OEMs; healthy SOB in most components supplied – The Mungi Group enjoys established relationships with a reputed client base of leading automotive OEMs of the domestic market, such as M&M and TML, who also drive a sizeable part of its revenues. The Group has a healthy SOB with M&M (~33%) and TML (~50%) and an established presence in most of the OEMs' product offerings in the PV and CV segments. The Group is a key supplier for many of the OEMs' upcoming models, also a testimony to their strong relationships.

Diversified revenue profile aided by presence across various segments – The Group enjoys a diversified business profile across multiple automotive segments such as CV, PV, CE, 3-wheelers, farm division, public transport and electric vehicles. About 50-60% of its revenues are driven by the PV segment, followed by the CV (~25%), thereby lending diversity to its revenue stream. The Group had also diversified its business toward heavy fabrication for non-auto sectors, such as construction and windmills. Moreover, it has also started supplying battery trays to a few electric vehicle suppliers in the domestic market.

Scaling up of operations has supported improvement in internal accrual generation – The Group's revenue has witnessed robust growth over the past five years, as demonstrated by the 5-year CAGR of 24.3%, with healthy scale-up witnessed in FY2022 and FY2023 (YoY growth of 93% and 45% respectively). While revenue growth was flattish in FY2024, primarily due to moderation in steel prices, internal accrual generation was healthy, supported by stable operating margins. Going forward, the Group is expected to record steady revenue growth driven by increasing volumes and content per vehicle for key OEM customers, resulting in higher cash accrual generation.

Credit challenges

Moderate profit margins due to limited value addition in sheet metal product and competitive intensity – The major portion of the Group's revenue is derived from the manufacturing of sheet metal components, which has limited value addition. Moreover, high competitive intensity of the business in the domestic market had led to limited bargaining power with its customers. This has resulted in moderate profitability over the years. The Group has, however, diversified its product profile by adding new higher value-added products, along with some variable cost savings, which has resulted in an improvement of its operating profit margins in the past two fiscals.

High customer concentration risk with business operations vulnerable to the performance of principal OEMs – The Group faces high client concentration risk with its top two customers, M&M and TML accounting for 47% and 23% of total revenues in FY2024, respectively. The Group's business performance is thus vulnerable to the performance and market share of these OEMs. However, the healthy SOB and strong relations with these clients mitigate this risk to an extent. Additionally, the management remains focused on enhancing customer diversification and enhancing supplies for electric vehicles, owing to which reliance on the top customer is expected to reduce to some extent over the medium term.

Exposed to cyclicality inherent in the automotive industry – The Group derives a majority of its revenue from the auto sector, mainly from PVs and CVs, thereby exposing its revenues to the demand cyclicality inherent in the auto industry. The Group has started to diversify into sectors other than automotive, such as construction equipment and windmills for its heavy fabrication business, which limits this risk to an extent. Revenues from the non-auto sector, however, remain minimal at present.

Liquidity position: Adequate

The Group's liquidity position is adequate, supported by healthy internal accrual generation, cash and equivalents balance of Rs. 6.0 crore, and undrawn working capital limits of ~Rs. 25 crore as on May 31, 2024. Although the long-term debt repayment obligations remain relatively high (~Rs. 80-90 crore p.a.) over FY2025 – FY2026, the Group's cash flows are expected to remain adequate for servicing the same.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the Group demonstrates steady accrual generation, while maintaining its debt protection metrics and improving its liquidity position on a sustained basis. Specific credit metrics that could lead to a ratings upgrade is Total debt/OPBITDA of less than 2.0 times on a sustained basis.

Negative factors – Pressure on the Group's ratings could arise in case of a sharp deterioration in its credit profile and liquidity position due to factors including pressures on revenue and accrual generation, stretch in the working capital cycle and any material delays in receipt of incentives. A specific credit metric that could lead to a ratings downgrade is if DSCR is below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Auto Components]
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of MEPL and MMLLP. The details of consolidation are provided in Annexure II.

About the company

MEPL, the flagship company of the Mungi Group, was incorporated in 2004 and commenced commercial operations in 2006, with its first manufacturing facility at Nashik (Maharashtra). The entity is being promoted by Mr. Vivek Mungi and his family. The company is involved in the manufacturing of sheet metal components, assemblies, and aggregates, with a diverse product profile of door assemblies, floor assemblies, axle tubes and banjo beam assemblies, which it supplies to OEMs such as M&M and TML. At present, the company has five manufacturing facilities, one each at Nashik (Maharashtra) and Zaheerabad (Telangana) and three at Chakan, near Pune (Maharashtra).

MMLLP was incorporated in June 2016 (operational from June 2019) as a limited liability partnership, wherein MEPL holds a 40% stake and the balance is held by the Mungi family. The LLP is in the same business sector as MEPL. Together, these two entities are referred to as the Mungi Group.

Key financial indicators (audited)

Mungi Group - Consolidated	FY2023	FY2024*
Operating income	1985.4	2013.1
PAT	54.6	67.0
OPBDIT/OI	7.8%	9.1%
PAT/OI	2.8%	3.3%
Total outside liabilities/Tangible net worth (times)	2.3	1.7
Total debt/OPBDIT (times)	2.7	2.5
Interest coverage (times)	5.3	4.5

*Source: Company, ICRA Research; *Provisional financials; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDITA: 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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 21, 2024	Feb 2, 2024	Dec 19, 2022	-???
1	**Term Loan**	Long-term	124.81	76.26	**[ICRA]A- (Stable)**	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-
2	**Fund-based – Working capital facilities**	Long-term/ Short-term	55.00	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-
3	**Non-fund based facilities**	Short-term	1.00	-	**[ICRA]A2+**	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loan	Simple
Long-term/Short-term – Fund-based – Working Capital Facilities	Simple
Short-term – Non-fund Based Facilities	Very Simple

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	Term loan	FY2019-FY2023	8.5%-9.0%	FY2026-FY2030	124.81	[ICRA]A- (Stable)
NA	Fund-based – Working capital facilities	NA	NA	NA	55.00	[ICRA]A- (Stable)/[ICRA]A2+
NA	Non-fund based facilities	NA	NA	NA	1.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	MMLLP Ownership	Consolidation Approach
Mungi Engineers Private Limited	-	Full Consolidation

Source: *Company*

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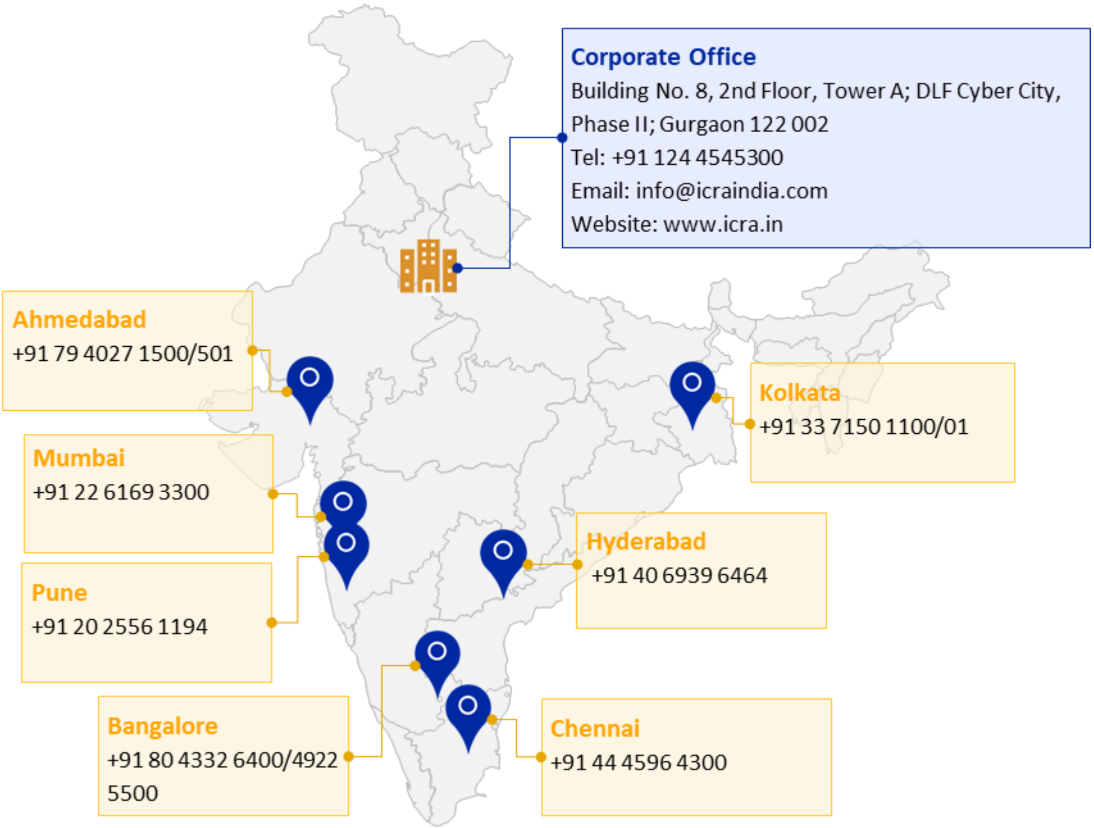

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