February 23, 2023

Mahesh Value Products Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	7.00	7.00	[ICRA]BBB-(Stable); reaffirmed
Proposed Unallocated Limits	0.20	-	
Term Loans	3.38	3.28	[ICRA]BBB-(Stable); reaffirmed
Letter of Credit	4.00	4.00	[ICRA]A3; reaffirmed
Non-fund based- others		0.20	[ICRA]A3; reaffirmed
Total	**14.58**	**14.48**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to factor in the extensive experience of Mahesh Value Products Private Limited's (MVPL) promoters in the sports goods and food products industries, and its established brands, Stumper, Sixit in sports segment and TT in food products segments, respectively. The company is expected to record flat revenue growth in FY2023 owing to moderation in volumes of its rubber ball segment. In H1 FY2023, rubber ball volumes declined by ~29% owing to lower demand with structural shift in consumer preference towards tennis balls. However, MVPL's tennis ball volumes are expected to witness healthy growth in FY2023, albeit on a small base. The company's margins are expected to moderate by 200Bps in FY2023 owing to lower share of revenues from rubber ball segment, which commands pricing premium. The company plans to double its tennis ball production which along with healthy demand for tennis balls is expected to support growth in revenues and earnings in the medium term. The ratings continue to factor in MVPL's comfortable capital structure and debt coverage metrics despite the expected moderation in profitability in FY2023.

The ratings, however, continue to be constrained by MVPL's modest scale of operations, restricting its financial flexibility. The revenues have remained moderate historically in the range of Rs. 50.0 crore to Rs. 70.0 crore in the last six fiscals ended FY2022. The ratings are also constrained by the intense competition, limited bargaining power with suppliers owing to the fragmented nature of the industry and the susceptibility of profit margins to fluctuations in raw material prices.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that MVPL will maintain a comfortable financial profile, benefitting from its established brands and its diversified revenue mix.

Key rating drivers and their description

Credit strengths

Established brands and long track record – MVPL is among the few established brands in the cricket ball segment, which enables it to command a premium pricing. Its brands, Stumper, in the rubber ball segment and TT in asafoetida products have several decades of presence in the domestic market.

Comfortable credit metrics –The company's debt levels continue to remain low as indicated by comfortable gearing of 0.5 times as on March 31, 2022. The coverage indictors remained healthy with Total debt/OPBITDA at 1.4 times and TOL/TNW at 0.8 times, as on March 31, 2022. Interest coverage remained healthy at 6.4x for the year FY2022. The company's lower reliance on external debt on the back of low working capital intensity has resulted in comfortable debt profile. The company's capitalisation and coverage metrics are however expected to moderate in the near term owing to moderation in margins in FY2023 and debt funded capex to be incurred in FY2024. The company is expanding its tennis ball capacity from the current 10 lakh balls/journey cycle to 25 lakhs/journey cycle for which debt is yet to be tied up. The enhanced capacity can be used for both tennis and rubber ball production. Nevertheless, the capitalisation metrics marked by TOL/TNW is expected to be comfortable in the range of 1.0x to 1.5x in the next three fiscals, while the coverage indicators marked by interest cover and TD/OPBDITA is expected to range between 4.0x to 5.0x and 2.5x to 3.0x, respectively.

Credit challenges

Modest scale of operations – MVPL's scale of operations continued to remain modest. The revenues have remained moderate historically in the range of Rs. 50.0 crore to Rs. 70.0 crore in the last six fiscals ended FY2022. As per provisional figures, in 9M FY2023, the company achieved sales of ~Rs. 50.0 crore. ICRA notes that the proposed capacity expansion and healthy demand for tennis balls is expected to support healthy revenue growth for the company in the medium term. However, the timely ramp-up in sales, and the company's ability to generate adequate returns from the expanded capacity will be a key monitorable. The revenues for the company are also expected to be supported by the healthy volume uptick in the asafoetida segment which has grown at an annualised rate of ~11% in the current fiscal. The realisations have also been stable at around Rs. 860/Kg.

Intensely competitive and fragmented industries with low entry barriers – MVPL operates in intensely competitive industries with numerous organised and unorganised players and low entry barriers for new entities. However, it continues to benefit to an extent because of its established brand name in India in the rubber ball segment and in South India for the asafoetida segment, where it has been able to secure moderate margins.

Susceptibility of margins to raw material price variations – The raw material prices in both the segments are volatile and witness seasonal variation as well. However, the company's selling prices are relatively fixed on account of intense competition, resulting in susceptibility of margins to raw material price fluctuation risk. The key raw materials used in manufacturing rubber ball/tennis ball is rubber, which is sourced from Kerala. The price of natural rubber has witnessed high volatility in the recent past. Nonetheless, given the established brand the company commands a price premium for its rubber ball products and is able to partially pass on the hike in raw material prices. The major raw materials for asafoetida are asafoetida plants and edible gum which are mainly available in countries like Afghanistan, Iran and Sudan, respectively. These countries are exposed to social unrest. Consequently, any shortage of raw materials would result in an adverse impact on prices.

Liquidity position: Adequate

MVPL's liquidity is **adequate**, supported by retained cash flows of Rs. 3 - 4 crore per annum over the next three years, and undrawn working capital limits of ~Rs. 2 crore as on December 31, 2022, against its repayment obligation of ~Rs 1 crore per annum. The capex of Rs. 15.0 crore in the near term is expected to be funded through a term debt of Rs. 12.0 crore (yet to be tied up) and internal accruals.

Rating sensitivities

Positive factor – ICRA could upgrade MVPL's ratings if the company demonstrates a healthy improvement in its scale of operations by diversifying its product profile while sustaining its profitability metrics and capital structure.

Negative factor – Pressure on MVPL's rating could arise if there is a decline in its scale of operations or any significant stretch in the company's capital structure owing to any sizeable debt-funded capital expenditure or an elongation in the working capital cycle. Specific credit metrics that could exert pressure on the rating include a decline in RoCE below 12% or if TD/OPDITA increases to more than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on MVPL's standalone financial statements

About the company

MVPL was established as a private limited company in 2011. The company is promoted by Mr. Nagarajan and Mr. N Parameshwari alias Sudha. The promoters started the business in 1985 in the name of Mahesh Camphors as a manufacturer of tablets of camphor. Later, they started Mahesh Rubbers in 1997 to cater to India's sporting community, under the brand, Stumper. Mahesh Rubbers was then converted into a private limited company and was renamed as Mahesh Elastomers Private Limited in 2000. Mahesh Elastomers acquired TT Asafoetida, a 125-years old brand. Subsequently, in 2011, all the independent units were merged to form a corporate entity called Mahesh Value Products Private Limited. At present, there are three divisions in MVPL, namely sports, spices and trade.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating Income (Rs. crore)	70.2	70.3
PAT (Rs. crore)	3.2	3.2
OPBDIT/OI (%)	9.0%	9.8%
PAT/OI (%)	4.5%	4.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.8
Total Debt/OPBDITA (times)	1.6	1.4
Interest Coverage (times)	7.6	6.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All the above ratios are per ICRA's calculations.

Status of non-cooperation with previous CRA: Not applicable

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 Outstanding as of Jan 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					23-Feb-2023	16- Dec-2021	3-Dec-2020	17-Oct-2019
1	Cash Credit	Long-term	7.00	-	[ICRA]BBB-(Stable); reaffirmed	[ICRA]BBB-(Stable); reaffirmed	[ICRA]BBB-(Stable); reaffirmed	[ICRA]BBB-(Stable); assigned
2	Proposed Unallocated Limits	Long-term	-	-	-	[ICRA]BBB-(Stable); reaffirmed	[ICRA]BBB-(Stable); reaffirmed	-
3	Term Loans	Long-term	3.28	3.28	[ICRA]BBB-(Stable); reaffirmed	[ICRA]BBB-(Stable); reaffirmed	-	[ICRA]BBB-(Stable); assigned
4	Letter of Credit	Short-term	4.00	-	[ICRA]A3; reaffirmed	[ICRA]A3; reaffirmed	[ICRA]A3; reaffirmed	[ICRA]A3; assigned

5	Non-fund based- others	Short-term	0.20	-	[ICRA]A3; reaffirmed	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Proposed Unallocated Limits	Not applicable
Term Loans	Simple
Letter of Credit	Very Simple
Non-fund based- others (Loan Equivalent Risk)	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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	7.00	[ICRA]BBB-(Stable)
NA	Non-fund based- others (Loan Equivalent Risk)	-	-	-	0.20	[ICRA]A3
NA	Term Loans	FY2021	8.00%	FY2025-26	3.28	[ICRA]BBB-(Stable)
NA	Letter of Credit	-	-	-	4.00	[ICRA]A3

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	-	-

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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