

January 30, 2024

Meera And Ceiko Pumps (P) Ltd.: Long-term rating downgraded to [ICRA]D and simultaneously upgraded to [ICRA]B+ (Stable); Short-term rating downgraded to [ICRA]D and simultaneously upgraded to [ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term –Fund-based – Term loan	1.62	1.62	Downgraded to [ICRA]D from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]B+ (Stable)
Short Term Fund-based	11.00	8.00	Downgraded to [ICRA]D from [ICRA]A4 and simultaneously upgraded to [ICRA]A4
Long-term Fund-based – Cash Credit	2.00	2.00	Downgraded to [ICRA]D from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]B+ (Stable)
Short Term- Non-Fund Based	6.38	6.38	Downgraded to [ICRA]D from [ICRA]A4 and simultaneously upgraded to [ICRA]A4
Long Term/Short Term- Unallocated	9.00	12.00	Downgraded to [ICRA]D / [ICRA]D from [ICRA]BB (Stable) / [ICRA]A4 and simultaneously upgraded to [ICRA]B+ (Stable) / [ICRA]A4
Total	30.00	30.00	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the ratings to [ICRA]D considers the irregularity in debt servicing by Meera And Ceiko Pumps (P) Ltd (MACPPL) in September 2023 on a project specific working capital facility of Rs. 3 crore. Based on the discussion with the company and lender, ICRA understands that the facility was repaid and closed on October 27, 2023, i.e., a 27-days from the due date. This was on account of delays in the collection of project specific receivables from MACPPL's key customers, leading to stretched cashflows. ICRA notes that the company has been regular in servicing the other facilities which are rated by ICRA, as confirmed by the bankers. ICRA has been receiving the No Default Statement (NDS) from MACPPL regularly, which did not suggest irregularity in debt servicing during this period. The simultaneous upgrade of the ratings to [ICRA]B+ (Stable) / [ICRA]A4 considers the timely debt servicing witnessed since October 27, 2023 aided by improved collections from its customers and expectation of an improvement in the company's overall credit profile going forward.

The ratings consider MACPPL's established track record in the hand pump manufacturing industry, its healthy relationships with customers and suppliers. MACPPL's clientele include Government agencies like Chhattisgarh Renewable Energy Development Agency (CREDA), Public Health Engineering Department (PHED), Rajasthan to name a few. The ratings are constrained by the company's moderate scale of operations. MACPPL's revenues declined by ~37% in FY2023. The company had order book of ~Rs. 84 crore as of September 30, 2023, however, the revenue booking was low in 9M FY2024 on account of delays in execution amidst concerns on collections and liquidity. While the management expects the revenue booking to improve in Q4 with improvement in collections and order executions, the same remains to be seen. The ratings also consider intense competition in the industry impacting its profit margins, which moderated significantly in the recent years. MACPPL's liquidity is stretched on account of elongated receivables cycle, albeit some improvement in collections witnessed in recent months. The company is also spending ~Rs. 26 crore towards converting leasehold land to freehold land in FY2024, partly funded by monetization of a land.

The Stable outlook on the ratings consider expected stable growth in revenues and earnings on the back of healthy order pipeline and the company's established track record in the industry.

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. It manufactures solar and hand pumps for irrigation and drinking water purposes.

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 FY2023 with slowdown in execution of orders. The company had order book of ~Rs. 84 crore as of September 30, 2023, however, the revenue booking was low in 9M FY2024 on account of delays in execution amidst concerns on collections and liquidity. While the management expects the revenue booking to improve in Q4 with improvement in collections and order executions, the same remains to be seen.

Stretched liquidity position on account of stretched receivables cycle – MACPPL's liquidity position is stretched due to elongated payments from its key customers, who are Government agencies and payment cycle is longer. The company is investing ~Rs. 26 crore in FY2024 towards conversion of leasehold land to freehold land. Around Rs. 11 crore of the same is funded through sale of a land parcel (advance has already been received), while the rest would be funded through internal cash flows. Although the collection of receivables are improving in recent month, the company's ability to manage high working capital requirements given the skew in revenue towards Q4 FY2024 remains to be seen. Timely enhancement in working capital limits remains critical to strengthen its liquidity position.

Intense competition in the industry; margins moderated in the recent years owing to high competition- The solar pumps manufacturing industry has many 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 6% in FY2023 from 16.4% in FY2020 owing to higher raw material costs and increase in competition.

Liquidity position: Stretched

MACPPL had free cash of ~Rs. 1.65 crore as on March 31, 2023. However, it has negligible buffer in working capital limits. While retained cash flows are expected to improve in FY2024 on the back of improved collections and lower scale, it has a committed cash outflow of Rs. 26 crore towards purchase of leasehold land. The company is in the process of selling a land parcel for Rs. 11 crore, for which advance has already been received, which would partly fund the land purchase. Timely enhancement in working capital limits remains critical to fund the expected scale-up of operations.

Rating sensitivities

Positive factors – ICRA may upgrade MACPPL's ratings if healthy order inflow and timely execution lead to a material improvement in its scale of operations and profit margins. Improved liquidity position with an improvement in receivable days also remains critical will be a positive factor.

Negative factors – Pressure on the ratings may arise if stretch in the receivables, or sharper contraction in revenues or accruals impact its liquidity position or debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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

Established in 1967 as a partnership firm as Meera Industries and was incorporated in 1985 as a private limited company by Mr. Mahesh K Desai under the name of Meera and Ceiko Pumps (P) Limited (MCPPL). MCPPL is engineering company engaged in manufacturing of solar photovoltaic and hydro pumps including hand pumps. The company has a manufacturing facility in Secunderabad area of Hyderabad district in Telangana with a capacity of 12000 pumps per annum.

Key financial indicators (audited)

Meera and Ceiko Pumps Private Limited	FY2022	FY2023
Operating income	64.4	40.6
PAT	1.4	0.2
OPBDIT/OI	5.8%	6.0%
PAT/OI	2.2%	0.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	6.6	8.6
Interest coverage (times)	1.9	1.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					November 24, 2022	October 28, 2022		
1	Term loan	1.62	1.5	[ICRA]B+ (Stable)	[ICRA]BB (Stable)	-	-	-
2	Cash Credit	2.00	-	[ICRA]B+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]BB+ (Stable)	-
3	Non Fund Based/BG	6.38	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+	-

4	Fund Based Working capital facilities	Short Term	8.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4 "ISSUER NOT COOPERATING"	[ICRA]A4+	-
		Long term/ Short Term	12.00	-	[ICRA]B+ (Stable) / [ICRA]A4	[ICRA]BB (Stable) / [ICRA]A4	[ICRA]B+ (Stable) / [ICRA]A4 "ISSUER NOT COOPERATING"	[ICRA]BB+ (Stable) / [ICRA]A4+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund based – Cash Credit	Simple
Short Term-Fund based	Simple
Short-term – Non-fund Based	Very Simple
Long-term/Short-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: [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	FY2022	NA	FY2027	1.62	[ICRA]B+ (Stable)
NA	Cash Credit	NA	NA	NA	2.00	[ICRA]B+ (Stable)
NA	ODBD	NA	NA	NA	8.00	[ICRA]A4
NA	Bank Guarantee	NA	NA	NA	6.38	[ICRA]A4
NA	Unallocated	NA	NA	NA	12.00	[ICRA]B+ (Stable) / [ICRA]A4

Source: Company

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

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