October 07, 2024

Martco Export Private Limited: Rating upgraded to [ICRA]BB-(stable); removed from Issuer Non-Cooperating Category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-term loan-fund based	6.00	40.00	[ICRA]BB-(Stable); upgraded from [ICRA]B (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating Category; rated amount enhanced
Long term-cash credit-fund based	2.00	-	-
Long term-term loan-fund based	0.00	1.56	[ICRA]BB-(Stable); assigned
Long term-export packing credit-fund based	0.00	19.50	[ICRA]BB-(Stable); assigned
Long term-standby line of credit-fund based	0.00	3.80	[ICRA]BB-(Stable); assigned
Long term-unallocated limit	0.00	5.14	[ICRA]BB-(Stable); assigned
Total	**8.0**	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has upgraded the rating of Martco Export Private Limited (MEPL) and removed the same from the 'Issuer Not-Cooperating' category based on adequate information received from the client for carrying out a detailed credit assessment.

The rating action also takes into consideration an improvement in MEPL's scale of operation in recent years through better product and geographical diversification. The revenue remained at Rs. 80-100 crore in the last three fiscals, which improved significantly compared to the earlier levels of Rs. 25-50 crore. The operating margin also remained comfortable at 9% in FY2024. Nonetheless, the overall scale continues to be modest at an absolute level. The rating also considers the established experience of the promoter in the same line of business, resulting in healthy relationships with customers and suppliers. MEPL is primarily present in the export market, which comprises ~98% of the total revenue, generating better margins for the company. The comfortable profile of the export clients also mitigates the counterparty credit risk to an extent.

However, the rating is constrained by MEPL's relatively small scale of operations with an annual revenue of Rs. 80 crore in FY2024. The company is also undergoing a significant debt-funded capital expenditure of Rs. 60 crore in FY2025, for which financial closure has been achieved. However, the capex is likely to adversely impact the company's leverage and coverage metrics in the near to medium term. While the interest-free nature of the unsecured loans (Rs. 13.89 crore as of March 2024) provides some comfort, the overall leverage continues to be high and would be further impacted by the debt-funded capex. An improvement in the leverage and credit metrics with a higher scale and profits would remain the key monitorable for the entity. Additionally, MEPL's high dependence on export revenues exposes it to foreign exchange fluctuations, although around 40% of this exposure is hedged, which mitigates the impact to an extent.

The Stable outlook on the long-term rating indicates ICRA's expectations that MEPL would be able to increase the scale and profits, resulting in modest credit metrics.

Key rating drivers and their description

Credit strengths

Established experience of promoters – MEPL was incorporated in 2011 and has been involved in the manufacturing and export of stainless-steel utensils, wooden handicrafts and allied products. With the promoters' extensive experience and the relationships they have built in the industry, MEPL has established a comfortable operational track record.

Diversified product profile catering to export clients – MEPL offers a diversified product profile, manufacturing various items, including stainless steel utensils, brass artwares, E.P.N.S. wares, and wooden handicrafts, with primary focus on stainless steel products. Approximately 60% of its exports are to the US and 20% to the UK, while domestic sales remain minimal. In addition to its existing product lines, MEPL is diversifying into new categories such as plastic products, candle wax, lighting and furniture, which is likely to further strengthen the operating profile of the entity.

Comfortable client profile mitigates counterparty credit risk to an extent – MEPL's customer profile includes large retailers like Costco and Disney among a few, which results in a comfortable client profile of the export market and also mitigates the counterparty credit risk to an extent. Additionally, all customers are covered under ECGC insurance, which provides comfort.

Credit challenges

Relatively small scale of operations - MEPL commenced production in FY2017 and is a small-sized entity with an annual production capacity of 77.5 lakh pieces, operating at a utilisation rate of ~69% in FY2024. The company recorded a 15.5% growth in operating income, increasing to Rs. 86.6 crore in FY2024 from Rs. 75 crore in FY2023. While the scale of operations has increased over the years, it remains modest at an absolute level.

Large debt-funded capex plans to adversely impact the credit metrics in medium term - In FY2025, the company plans to undertake a significant capex of Rs. 60 crore, which is likely to be funded by a term loan of Rs. 40 crore and the balance through equity/unsecured loans from the promoters. However, the capex is likely to adversely impact the company's leverage and coverage metrics in the near to medium term and an improvement in the metrics with higher scale and profits would remain the key monitorable for the entity.

High leverage and moderate coverage indicators – The leverage (TD/OPBDITA) continues to be high, reflected in TD/OPBDITA of 5 times in FY2024. While the interest-free nature of the unsecured loans (Rs. 13.89 crore as of March 2024) provides some comfort, the leverage (external debt/OPBDITA) continues to be high at 3.3 times in FY2024 and would be further impacted by the debt-funded capex. In addition, the interest coverage remains modest at 3.3 times in FY2024 and would deteriorate FY2026 onwards, with a higher interest outgo on the new term loan of Rs. 40 crore.

Exposure to foreign exchange fluctuation risk - MEPL's revenues are primarily generated through export sales (~98% of the total sales in FY2024), with minimal contribution from domestic sales. Given its high exposure to exports, the company is vulnerable to exchange rate fluctuations. However, this risk is partially mitigated by MEPL's policy of hedging approximately 40% of its exposure.

Liquidity position: Stretched

The liquidity remains stretched with high utilisation of the working capital limits, which remains ~100% utilised (including adhoc limits) as of March 2024. In the current fiscal, too, the limit utilisation continues to be high. In addition, the company is undertaking a capex of Rs. 60 crore, which would be funded by a term loan of Rs. 40 crore and the balance through equity/unsecured loans. The timely infusion of the funds would be crucial for project completion.

Rating sensitivities

Positive factors – ICRA could upgrade MEPL's rating if the company demonstrates a sustained increase in its revenues and profitability along with an improvement in its liquidity and debt coverage metrics.

Negative factors – Pressure on the rating will arise if there is a significant decline in the company's revenues and/or earnings that would substantially weaken the liquidity position and coverage indicators. Any significant cost and time overrun in the ongoing debt-funded capex, impacting the liquidity and credit metrics, may also result in a rating downgrade. A specific credit metric for downgrade includes DSCR below 1.1 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 the standalone financial statements of MEPL

About the company

Martco Export Private Limited (MEPL), incorporated in 2011, was set up by three brothers, Mr. Rachit Jain, Mr. Rajan Jain and Mr. Samish Jain. The company manufactures and exports stainless steel utensils, brass artwares, E.P.N.S. wares, wood & glassware and other Indian handicrafts, with focus on stainless steel utensils and wooden handicrafts.

MEPL focusses on exporting its products with majority of its clients in the US and UK. The company makes negligible domestic sales only to certain parties who further export the products. MEPL has an annual production capacity of approximately 77.5 lakh units.

Key financial indicators

	FY2023	FY2024*
Operating income	75.0	86.6
PAT	2.4	3.0
OPBDIT/OI	7.0%	9.1%
PAT/OI	3.3%	3.4%
Total outside liabilities/Tangible net worth (times)	2.7	3.3
Total debt/OPBDIT (times)^	4.6	5.0
Interest coverage (times)	3.2	3.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios are as per ICRA's calculations; Amount in Rs. crore; ^ adjusted for interest-free unsecured loans, the TD/OPBDITA remained around 3.1 times and 3.3 times in FY2023 and FY2024, respectively.*

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Oct 07, 2024	Feb 28, 2024	Dec 21, 2022	Nov 25, 2021
1	Long term - Term loan – Fund-based	Long term	40.00	[ICRA]BB- (Stable)	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable) ISSUER NOT COOPERATING
2	Long term - Cash credit - Fund based	Long term	-	-	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable) ISSUER NOT COOPERATING
3	Long term - Export packing credit-fund based	Long term	19.50	[ICRA]BB- (Stable)	-	-	-
4	Long term - Term loan – Fund-based	Long term	1.50	[ICRA]BB- (Stable)	-	-	-
5	Long term - Term loan – Fund-based	Long term	0.06	[ICRA]BB- (Stable)	-	-	-
6	Long term - Standby line of credit – Fund-based	Long term	3.80	[ICRA]BB- (Stable)	-	-	-
7	Long term – Unallocated - Unallocated	Long term	5.14	[ICRA]BB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Export packing credit	Simple
Standby line of credit	Simple
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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	March-2024	NA	Feb-2034	40.00	[ICRA]BB- (Stable)
NA	Term loan – GECL	July-2021	NA	November-2026	1.56	[ICRA]BB- (Stable)
NA	Export packing credit	NA	NA	NA	19.50	[ICRA]BB- (Stable)
NA	Standby line of credit	NA	NA	NA	3.80	[ICRA]BB- (Stable)
NA	Unallocated limits	-	-	-	5.14	[ICRA]BB- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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