

July 30, 2020

McCoy Architectural Systems Private Limited: Ratings reaffirmed; outlook on the long-term rating revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	4.00	4.00	[ICRA]BB+(Negative); Reaffirmed and outlook revised to 'Negative' from 'Stable'
Long-term Term Loans	5.00	5.00	[ICRA]BB+(Negative); Reaffirmed and outlook revised to 'Negative' from 'Stable'
Short-term Non-fund Based	16.00	16.00	[ICRA]A4+; Reaffirmed
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook considers the strained liquidity position of McCoy Architectural Systems Private Limited (MASPL) on account of increased receivables as on March 31, 2020 and the impact of the novel coronavirus (Covid-19) pandemic on its operations. The realisation of receivables has remained sluggish and the company has not been able to book any revenues in Q1 FY2021, following the pan-India lockdown announced by the Government of India (GoI) on March 24, 2020.

The ratings favourably factor in the extensive experience of the promoter and MASPL's established track record in supplying engineering architectural systems and its diversified and reputed customer base. The ratings note the improvement in its profitability indicators leading to improvement in capitalisation and coverage ratios in FY2020, even though the same remain moderate.

However, the ratings are constrained by MASPL's modest scale of operations and its fluctuating revenues remain vulnerable to any slowdown in infrastructure projects. Moreover, the company has high reliance on creditors to meet its working capital requirements as reflected by high creditor days of 264 days as on March 31, 2020. The ratings factor in the vulnerability of its profitability to fluctuations in raw material prices and pricing pressures arising out of stiff competition from numerous smaller players.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and established track record in supplying engineering architectural systems – MASPL was established in 1994 and has an operational track record of over two decades in supplying engineering architectural systems. The company is managed by Mr. Ajay Atreya. MASPL has successfully delivered architectural roofing systems for prestigious projects such as Mumbai Airport - Terminal 1B, D.Y.Patil Stadium – Navi Mumbai and CWG 2010 Games Village in the past.

Diversified and reputed client base – MASPL mainly caters to two distinct segments - glass façade solutions and architectural roofing systems. Its customer portfolio includes clients from the corporate segment, as well as builders, developers and Government agencies. It has executed projects for reputed clients such as the Airports Authority of India, the Adani Group, JSW Steel Ltd., Reliance Infrastructure, etc, in the past. As the company's revenues are dependent on various projects, its customer concentration has remained moderate. The top five customers accounted for 52% and 66% of MASPL's total revenues in FY2019 and FY2020, respectively.

Improvement in profitability indicators in FY2020 – The company's operating profit margins (OPM) improved to 10.26% in FY2020 from 7.48% in FY2019 due to lower manufacturing expenses in FY2020. In FY2020, MASPL started operations at its new manufacturing facility in Chakan, Pune leading to lower labour costs of Rs. 5.49 crore (P.Y.: Rs. 11.64 crore). Subsequently, the company's net profit margin (NPM) increased to 2.49% in FY2020 from 1.50% in FY2019. Owing to increased profitability, the debt coverage indicators improved as reflected by interest coverage of 3.35 times, NCA/TD of 21%, DSCR of 3.09 times and TD/OPBDITA of 2.95 times as on March 31, 2020 compared to interest coverage of 3.09 times, NCA/TD of 14%, DSCR of 2.62 times and TD/OPBDITA of 3.79 times as on March 31, 2019 respectively.

Credit challenges

Modest scale of operations with fluctuating revenues – During the last five fiscals, MASPL's scale of operations remained moderate with a turnover ranging Rs. 30.00-50.00 crore. In FY2020, its operating income (OI) witnessed a decline of 22% to Rs. 36.18 crore in FY2020 from Rs. 46.21 crore in FY2019. As the company earns most of its revenue in the last quarter, it could not bill ~Rs. 10.00 crore over the last 15 days of March 2020 due to the nationwide lockdown imposed to control the Covid-19 pandemic. Further, it has not booked any revenues in Q1 FY2021, as project execution has been halted at project sites owing to the lockdown. ICRA notes that MASPL has an outstanding order book of ~Rs. 50.00 crore as on June 30, 2020. Timely execution of these orders in hand remains critical from the credit perspective.

Reliance on creditors for meeting working capital requirement resulting in high TOL/TNW – MASPL has high dependence on creditors for meeting its working capital requirements as reflected by higher creditor days of 264 days as on March 31, 2020. Higher creditors resulted in higher Total Outside Liabilities/Tangible Net Worth of 2.28 times as on March 31, 2020.

Stretched liquidity position as reflected from elongated receivables and high utilisation of working capital limits – MASPL's liquidity position remained stretched in FY2020 due to its high debtor days. Debtors tend to remain high as on March end as maximum project execution happens during the last three months of a fiscal. However, it increased to 129 days (P.Y. 69 days) as on March 31, 2020. Consequently, the monthly utilisation of the fund-based working capital limits averaged at 96% of the sanctioned limits during the 15-month period that ended in May 31, 2020, providing limited cushion to the liquidity.

Vulnerability of profitability to volatile raw material prices and intense competition – The company's pricing is based on the prevalent market prices of raw materials, which remains fixed till the project duration of 1 to 1.5 years, thus exposing its profitability to any unfavourable movement in the same. MASPL's key raw materials, steel plates and coils, used for fabricating structures form the bulk of its raw material costs. It requires polycarbonate sheets, specialised fabrics and glass amongst others, which are used for roofing and cladding. Further, the company faces intense competition from numerous small players (who are willing to take orders at lower margins), leading to pricing pressures, which in turn affects its profitability.

Susceptibility of operations to slowdown in infrastructure projects – The company's order flow mainly depends upon the activities in infrastructure and construction sectors. MASPL primarily provides architectural solutions for sport stadiums, toll plazas, skywalks, malls, residential and commercial complexes, hotels, theme parks, convention centres

and car parks amongst others. Any slowdown in such projects may impact its prospects, as reflected in the fluctuating revenues during the last five years. Thus, timely completion of its outstanding orders remains uncertain given the current Covid-19 pandemic situation.

Liquidity position: Stretched

MASPL's liquidity position remains **stretched** as reflected from high receivables and almost full utilisation of working capital limits. The company's monthly utilisation of the sanctioned working capital limits averaged at 96% during the 15-month period that ended in May 2020. The Covid-19 pandemic has further exacerbated the liquidity position as the company has not been able to book any revenues or raise any bills, with slow realisation from debtors in Q1 FY2021.

MASPL has an outstanding term loan of Rs. 3.86 crore (P.Y.: Rs. 4.93 crore) as on March 31, 2020. The company applied for a term loan for Rs. 1.4 crore in FY2021. It has modest term loan repayments (including for proposed term loan) over the next three years at Rs. 0.75 crore in FY2021, Rs. 1.59 crore in FY2022 and Rs. 1.72 crore in FY2023, respectively. It has availed the loan repayment moratorium for March 2020 to August 2020, extended by the Reserve Bank of India.

Rating sensitivities

Positive triggers – ICRA could change the outlook to Stable if the company is able to timely execute its outstanding orders in hand leading to an increase in its OI and profitability. Other factors that may lead to a change in outlook include improvement in liquidity position through timely realisation of receivables.

Negative triggers – ICRA could downgrade MASPL's ratings if any delay in execution of orders in hand lead to reduced turnover and profitability. Additionally, any further weakening of liquidity position or stretch in receivables position could have a negative impact on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Founded in 1994, MASPL is an architectural engineering company, which acts as a creative engineer for designers and architects. It provides integrated solutions for architectural products, such as steel enclosures (buildings), large span roofs, skylights, tensile membrane structures and glass façade. The company successfully delivered roofing systems for prestigious projects such as D. Y. Patil Stadium, 2010 Commonwealth Games Village and Terminal 1B of Mumbai Airport. MASPL has branch offices in Mumbai, Delhi and Kolkata, and manufacturing facilities for steel and fabric fabrication at Navi Mumbai. In FY2020, a new manufacturing unit was set up at Chakan, Pune (Maharashtra) to manufacture glass façade and aluminium structures.

In FY2020, on a provisional basis, MASPL reported a net profit of Rs. 0.90 crore on an OI of Rs. 36.18 crore compared to a net profit of Rs. 0.69 crore on an OI of Rs. 46.21 crore in the previous year.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	44.74	46.21	36.18
PAT (Rs. crore)	0.04	0.69	0.90
OPBDIT/OI (%)	4.51%	7.48%	10.26%
RoCE (%)	12.97%	13.64%	9.44%
Total Outside Liabilities/Tangible Net Worth (times)	2.55	2.36	2.28
Total Debt/OPBDIT (times)	4.47	3.79	2.95
Interest Coverage (times)	3.31	3.09	3.35
DSCR	2.21	2.62	3.09

Source: MASPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					30-Jul-2020	-	29-Mar-2019	27-Sep-2017
1	Cash Credit	Long-term	4.00	-	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long-term	5.00	3.86	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)
3	Non-fund based	Short-term	16.00	-	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A3

*Outstanding as on March 31, 2020; Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based Cash Credit	NA	NA	NA	4.00	[ICRA]BB+(Negative)
NA	Long-term Term Loans	FY2017	10.05%	FY2023	5.00	[ICRA]BB+(Negative)
NA	Short-term Non-fund Based	NA	NA	NA	16.00	[ICRA]A4+

Source: MASPL

Annexure-2: List of entities considered for consolidated analysis –Not applicable

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