

January 11, 2021

Mungi Engineers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based/CC	65.00	55.00	[ICRA]BBB+(Negative); reaffirmed
Fund-based Term Loan	197.41	233.09	[ICRA]BBB+(Negative); reaffirmed
Short-term Fund-based	75.00	15.00	[ICRA]A2; reaffirmed
Non-fund based Working Capital Facilities	36.50	20.00	[ICRA]BBB+(Negative)/[ICRA]A2; reaffirmed
Total	373.91	323.09	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating of Mungi Engineers Private Limited (MEPL or the company), ICRA has consolidated financials of MEPL and Mungi Metal craft LLP (MMLLP) owing to strong business and financial linkages between them. MEPL hold 10% partnership stake in MMLLP and has provided corporate guarantee to bank debt of MMLLP. MMLLP operates as a captive plant for MEPL and as a paint shop for large cargo bodies.

The rating reaffirmation continues to factor in vast experience of the promoter of MEPL in the domestic auto component industry and their established presence in the sheet metal components and heavy fabrication, which find application in diverse end-user industries like Utility vehicles (UV), commercial vehicles (CV), tractors/farm (farm), construction equipment (CE) etc. ICRA notes the company's established relationship with the reputed clientele, such as Mahindra & Mahindra (M&M), Tata Motors limited(TML), Spicer India etc. along with the sizeable share of business with some of the key OEMs products.

The ratings are constrained by moderation in MEPL's financial profile due to the slowdown in automotive industry in FY2020 and further impacted by pandemic induced lockdown. MEPL's revenues de-grew by a sharp ~28.9% in FY2020 with a cascading impact on profitability and debt coverage indicators. The ratings continue to remain constrained by the limited value addition in the sheet metal business as reflected in the moderate profitability over the years. The return of capital employed (ROCE) also remained moderate because of under utilisation of fixed assets due to overall slowdown in auto industry, sizeable capex incurred in the recent past and investment in its sister concern Mungi Metal Craft LLP. However, ICRA notes that MEPL's policy of not routing the government incentives through profit and loss (P&L) statement suppresses the ROCE and other coverage indicators to an extent.

The ratings also remain constrained by the exposure of MEPL's earnings to the cyclicity in the auto industry and the high customer concentration risk with the top customer generating ~63% of the revenue in FY2020. Though the company has added new clients in the portfolio over the last few years, their share remains moderate. The company has also added new customers from sectors such as construction, windmill and railway business, which will help to reduce its dependence on the cyclicity of automotive industry to an extent.

The Negative outlook on the long-term rating reflects the impact of industry wide slowdown amid the pandemic coupled with its stretched liquidity and limited operating cash flows to service the debt obligations over the medium term leading to high refinancing risk. The expected receipt of subsidy under mega project incentive scheme will remain key to improve its liquidity position in the medium term while new term loans to be sanctioned under ECLGS (Emergency credit line Guarantee Scheme) scheme will provide liquidity buffer to the company to services its debt obligations in the near term.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in sheet metal business and established business relationship with M&M Group – The promoters have more than three decades of experience in the sheet-metal business. ICRA also derives comfort from the established relationship of the company with its key client- M&M Group, from which it derived over 63% of its revenues in FY2020. MEPL has a high share of business with M&M and presence in most of OEM’s product offerings in the UV and LCV segment. The company is a key supplier for many of the OEM’s upcoming models, a testimony to their strong relationship.

Diversified Revenue Profile with presence across Various Segments – MEPL enjoys a comfortable business profile with presence across multiple automotive segments. About 36% of its revenues is driven by the utility vehicle segments, 28% by LCVs (Light Commercial Vehicle) and about 16% by M&HCV (Medium and Heavy Commercial Vehicle), thereby lending diversity to revenue streams.

Profitability is protected by quarterly pricing arrangements with OEM and variable nature of majority of costs – MEPL prices its components on a cost-plus basis, wherein the company can pass on the fluctuations in commodity prices to its OEM clients. The company sets the prices on quarterly basis with OEMs to protect its margin from any significant increase in cost. In addition, most of the company’s cost is variable in nature as the extensive deployment of contractual labour helps the company to maintain profit margins in difficult times.

Credit challenges

Moderate debt protection metrics; inflows from mega incentive scheme to support capital structure– The debt protection metrics deteriorated in FY2020 with TD/OPBITDA of 5.8x as compared to 4.6x in FY2019 because of lower profitability in FY2020. ICRA notes that MEPL’s policy of not routing the government incentives through profit and loss (P&L) statement suppresses the ROCE and debt protection metrics to an extent. The company’s adjusted TD/ OPBITDA (if receipt of incentive is accounted as operating income in P&L account) was 4.6x in FY2020 versus 3.9x in FY2019. The gearing improved to 1.3x in FY2020 versus 1.6x in FY2019 supported by receipt of incentive of Rs 12.5 crore in FY2020 under mega project scheme coupled with lower working capital debt supported by lower debtor days. ICRA expects an improvement in gearing and debt protection metrics in the medium term supported by strengthening of net worth with an expected incentive receipt of Rs 12.5 crore in FY2021 (company has received 2.6 crore in November 2020) and about Rs. 36 crore in FY2022- FY2023 period.

Moderate profitability due to limited value addition in sheet metal products and Covid-19 impact–The company derives majority of its revenue from the sheet metal component. MEPL’s profitability remains limited due to the moderate value addition in sheet metal products and the limited bargaining power with customers. Though the company is diversifying the product profile by adding new higher value-added products, the positive impact of the same is yet to be witnessed. The company’s revenue was impacted in FY2020 due to industry wide slowdown and then further exacerbated by the pandemic induced lock down. The company’s operating profit decline to 7.4% in FY2020 versus 7.7% in FY2019, due to lower scale of operation. In April to Nov 2021, the company reported operating profit of 6.8%, impacted by losses due to shut down of operation for majority of Q1 due to lockdown.

Customer concentration risk with M&M group – The company remains exposed to client concentration risk; M&M accounted for over 63% of MEPL’s revenues and TML contributed 21% of revenue in FY2019. The management has been putting efforts towards customer diversification, as reflected in the increasing revenue contribution from other clients such as Schmitz Cargobulls Lear automotive, York India etc. However, their share is moderate at present.

Exposure to cyclical in automotive industry; MEPL derives majority of its revenue from the auto segment, majorly from UV and LCV, thereby exposing its revenues to demand cyclical. During the current fiscal, automotive growth had slowed down for all the segments (excluding farm) due to the significant disruption in demand. The company has now started to diversify in different sector such as construction equipment’s, windmill business, railways etc., which limits this risk to an extent. Though the revenue from non-auto sector remain minimal at present

Liquidity position: Stretched

MEPL’s liquidity is **stretched** with expected fund flow from operations excluding incentive receipt of nearly Rs. 18-22 crore and incentive receipt of about Rs 12.5 crore in FY2021, and moderately high working capital utilisation levels of +90% of drawing power. Mungi’s consolidated debt repayments at Rs. 26.8 crores in FY2021 also remain high compared to cash accruals. The company is expected to receive sanction of term loan under ECLGS 2.0 of ~Rs. 55-60 crore which will provide liquidity buffer to the company.

Overall, ICRA expects MEPL to be able to meet its near-term commitments through cash accruals, ECLGS loans and receipt of incentives.

Rating sensitivities

Positive triggers – A change in the outlook to Stable in the rating could happen if there is an improvement in earnings and debt indicators, supported by a faster-than-expected revival in demand. ICRA will also monitor the timely receipt of incentive benefits, which would support the company’s liquidity.

Negative triggers – Negative pressure on MEPL’s ratings could arise on a sharp deterioration in its credit profile and liquidity with a persistent slowdown in demand and if company does not receipt the incentive benefit on timely basis. Specific credit metrics that could lead to a rating downgrade include TOL/TNW of more than 1.75 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	NA
Consolidation/Standalone	The Rating is based on consolidated financials of Mungi Engineers Private Limited(MEPL) and Mungi Metalcraft LLP(MMLLP)

About the company

Mungi Engineers Private Limited (MEPL, “the company”), the largest company of the Mungi Group, was incorporated in 2004 and commenced commercial activity in 2006, with its first manufacturing facility at Nashik. Promoted by Mr. Vivek Mungi, the company is involved in the manufacture of sheet metal components, assemblies and aggregates. MEPL’s product profile consists of door assemblies, floor assemblies, axle tubes, banjo beam assemblies, which it supplies to OEMs such as M&M and TML.

In FY2020, as per the audited financials, the group (MEPL and MMLP) reported a net loss of Rs. 4.7 crore on an operating income of Rs. 673.0 crore, as compared to a net profit of Rs. 16.7 crore on an operating income of Rs. 949.6 crore in the previous year. In April to November 2021, as per the provisional financials, the company reported a loss before tax of Rs 7.3 crore on an operating income of Rs 350.5 crore.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	949.6	673.0
PAT (Rs. crore)	16.7	-4.7
OPBDIT/OI (%)	7.7%	7.4%
PAT/OI (%)	1.8%	-0.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	1.9
Total Debt/OPBDIT (times)	4.6	5.7
Interest Coverage (times)	3.0	1.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2020	FY2019		FY2018
					Jan 11,2021	April 14, 2020	Nov 15, 2019	Nov 29,2018	Nov 12,2018	Oct 30,2017
1	Fund Based/CC	Long Term	55.00		[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Term Loan	Long Term	233.09	173.17	[ICRA]BBB+(Negative)	[ICRA]BBB+(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Fund Based	Short Term	15.00		[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Letter of Credit & Bank Guarantee	Long Term/Short Term	20.00		[ICRA]BBB+(Negative)/A2	[ICRA]BBB+(Negative)/A2	[ICRA]A-(Negative)/A2+	[ICRA]A-(Stable)/A2+	[ICRA]A-(Stable)/A2+	[ICRA]A-(Stable)/A2+

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term Fund Based/CC	-	-	-	55.0	[ICRA]BBB+/Negative
NA	Term Loan 1	1-Oct-14	8.25%	27-Nov-21	0.37	[ICRA]BBB+/Negative
NA	Term Loan 2	10-Apr-13	8.25%	10-Jun-28	7.88	[ICRA]BBB+/Negative
NA	Term Loan 3	02-Apr-15	8.25%	23-Aug-28	3.00	[ICRA]BBB+/Negative
NA	Term Loan 4	27-Sep-16	8.25%	01-Feb-26	6.65	[ICRA]BBB+/Negative
NA	Term Loan 5	30-Dec-16	8.25%	28-Feb-26	4.35	[ICRA]BBB+/Negative
NA	Term Loan 6	-	8.25%	28-Feb-26	5.89	[ICRA]BBB+/Negative
NA	Term Loan 7	21-Sep-18	8.25%	21-Nov-22	8.53	[ICRA]BBB+/Negative
NA	Term Loan 8	30-Mar-17	8.50%	29-Mar-25	5.95	[ICRA]BBB+/Negative
NA	Term Loan 9	29-Aug-18	8.50%	29-Aug-25	3.04	[ICRA]BBB+/Negative
NA	Term Loan 10	10-Oct-17	8.50%	16-Oct-25	27.64	[ICRA]BBB+/Negative
NA	Term Loan 11	21-May-18	8.50%	29-Aug-25	25.59	[ICRA]BBB+/Negative
NA	Term Loan 12	13-Dec-19	8.50%	13-Dec-24	18.61	[ICRA]BBB+/Negative
NA	Term Loan 13	30-Apr-19	8.50%	30-Apr-26	9.80	[ICRA]BBB+/Negative
NA	Term Loan 14	16-Oct-18	9.00%	5-Jan-25	21.57	[ICRA]BBB+/Negative
NA	Term Loan 15	22-Jan-18	9.25%	5-Mar-24	24.30	[ICRA]BBB+/Negative
NA	Term Loan 16*	-	-	-	30.94	[ICRA]BBB+/Negative
NA	Term Loan 17*	-	-	-	18.75	[ICRA]BBB+/Negative
NA	Term Loan 18*	-	-	-	4.80	[ICRA]BBB+/Negative
NA	Term Loan 19*	-	-	-	5.43	[ICRA]BBB+/Negative
NA	Short Term-Fund Based	-	-	-	15.00	[ICRA]A2
NA	Short Term/Long Term Non-fund based	-	-	-	20.00	[ICRA]BBB+(Negative)/A2

* Proposed term loans

Source: Mungi Engineers Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mungi Metal Craft LLP	10.00%	Full Consolidation

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