

December 19, 2022

Mungi Engineers Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	203.76	193.15	[ICRA]BBB+(Stable); reaffirmed and outlook revised to Stable from Negative
Short-term – Fund-based	20.00	-	-
Long-term/ Short-term – Non-fund Based	20.00	29.94	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed and outlook revised to Stable from Negative
Long-term/ Short-term – Fund based WC Facility	65.00	100.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed and outlook revised to Stable from Negative
Long-term / Short-term – Unallocated	14.33	-	-
Total	323.09	323.09	

*Instrument details are provided in Annexure-1

Rationale

While arriving at the ratings of Mungi Engineers Private Limited (MEPL), ICRA has taken a consolidated view of MEPL and its group company, Mungi Metalcraft LLP (MMLLP), given the close operational, management and financial linkages between the two entities. Both the companies operate in the auto components business, sharing common management and close financial ties. MEPL holds 40% stake in MMLLP and has also provided a corporate guarantee for the bank debt availed by the latter. Together, these two entities are referred to as the Mungi Group/Group.

The revision in the outlook on the long-term rating to Stable factors in the improvement in the credit profile and liquidity position of the Group, supported by healthy accrual generation in FY2022 and H1 FY2023 on the back of continued strong demand from the underlying passenger vehicle (PV) and commercial vehicle (CV) industries. The Mungi Group posted revenue of ~Rs. 1,358 crore in FY2022 (94% YoY growth) and ~Rs. 1,025.6 crore¹ in H1 FY2022 (109% YoY growth) supported by healthy offtake from key customers, who include various established automotive original equipment manufacturers (OEMs). Moreover, ICRA expects the growth momentum to sustain over the near term, aided by steady demand outlook for the industry. Additionally, timely enhancement of working capital bank limits to meet the incremental working capital limits in lieu of strong revenue growth and higher internal accrual generation has aided the improvement in the Group's liquidity profile.

The ratings also continue to factor in the extensive experience of the Mungi Group's promoters in the domestic auto component industry and its established presence in sheet metal components and heavy fabrication, which find application in PVs, CVs, tractors, construction equipment (CE), etc. The Group also benefits from its established relationship with its reputed clientele, such as Mahindra & Mahindra (M&M) and Tata Motors Limited (TML), along with its sizeable share of the business (SoB) for some key OEMs products. Moreover, the Group's profitability is also protected by quarterly pricing arrangements with OEMs, which helps it to pass on any adverse movement in raw material prices to its customers. ICRA has also noted the initiatives of the company to scale up its non-automotive sheet metal fabrication business, which once materially scaled up is expected help in some diversification of the Group's revenue stream.

The ratings, however, remain constrained by the highly competitive intensity and limited value addition in the sheet metal business, resulting in limited pricing flexibility and moderate operating margins over the years. Moreover, high reliance on

¹ As per provisional financials

debt to meet incremental working capital requirements and debt-funded capex incurred towards capacity expansions has continued to result in relatively high leverage levels, as marked by TOL/TNW² of ~2.3 times in recent years. While the metric is likely to remain moderated in FY2023 due to debt-funded capex being undertaken, the same is expected to improve considerably from FY2024, aided by higher internal accrual generation. The ratings also remain constrained by the exposure of the Group's earnings to the cyclical nature in the auto industry and the high customer concentration risk, with the top two customers generating ~75% of revenues in FY2022. Though the Group has added new clients to its portfolio over the last few years, including from non-auto sectors such as construction and windmills, the share of revenue from the same remains moderate as of now.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in sheet metal business and established business relationship with reputed customers

– The Group's promoter, Mr. Vivek Mungi, has more than four decades of experience in the automotive industry. ICRA also derives comfort from the established relationship of the Group with reputed customers, such as M&M and TML, who drive a sizeable part of its revenues. The Group has a high share of business with M&M and TML and a presence in most of the OEMs' product offerings in the PV and CV segments. The Group is a key supplier for many of the OEMs' upcoming models, a testimony to their strong relationships.

Diversified revenue profile aided by presence across various segments

– The Group enjoys a comfortable business profile across multiple automotive segments. About 51% of its revenues is driven by the PV segment, followed by the CV (24%), thereby lending diversity to its revenue stream. The Group has now also diversified its business toward heavy fabrication for non-auto sectors, such as construction and windmills. The revenue from those sectors remains moderate at present, but is expected to witness healthy growth over the medium term.

Profitability protected by quarterly pricing arrangements with OEMs and variable nature of majority of costs

– The Group prices its components on a cost-plus basis, wherein it can pass on the fluctuations in commodity prices to its OEM clients. The Group sets the prices on a quarterly basis with OEMs to protect its margins from any significant increase in cost. In addition, most of its cost is variable in nature as the extensive deployment of contractual labour helps MEPL to maintain profit margins.

Credit challenges

Moderate debt protection metrics due to continued debt-funded capex undertaken by the Group

– Given the healthy growth in scale of operations, the elevated working capital requirements have kept the reliance on working capital debt relatively high. Coupled with debt-funded capex incurred towards capacity expansions, this has continued to result in relatively high leverage and moderate debt protection metrics, as marked by total debt/OPBITDA of 3.1x and DSCR of 1.2x in FY2022. Moreover, to support its growth momentum, the Group plans to incur capex of ~Rs. 150-160 crore over FY2023 and FY2024, primarily towards capacity expansion and modernisation of plants. While this capex is expected to support growth and provide diversification benefits, it is likely to keep the debt levels elevated over the near term. Consequently, the debt protection metrics are likely to remain moderated in FY2023, with improvement expected from FY2024, aided by higher internal accrual generation.

Moderate profit margins due to limited value addition in sheet metal product, and competitive pressures

– Sheet metal components drive most of the Group's revenues. MEPL's profitability remains limited by the moderate value addition in sheet metal products and its limited bargaining power with customers. Though the Group is diversifying its product profile by adding

² Total Outside Liability/ Tangible Net Worth

new, higher value-added products, the positive impact of the same is yet to be witnessed. The sheet metal component business is also characterised by high competitive intensity in the industry, which restricts the Group’s pricing flexibility to an extent.

Exposed to customer concentration risk and cyclicality inherent in the automotive industry – The group remains exposed to client concentration risk as M&M accounted for over 48% and TML for 27% of MEPL’s revenues in FY2022. However, the management remains focused towards enhancing customer diversification, as reflected in the increasing revenue contribution from other clients such as Schmitz Cargobulls, Lear Automotive, and York India. However, their share is moderate at present. The Group derives majority of its revenue from the auto sector, mainly from PVs and CVs, thereby exposing its revenues to the demand cyclicality inherent in the auto industry. The Group has now started to diversify into sectors other than automotive, such as construction equipment and windmills for its heavy fabrication business, which limits this risk to an extent. Revenues from the non-auto sector, however, remain minimal at present.

Liquidity position: Adequate

The Group’s liquidity position has improved and is adequate, supported by increased level of internal accrual generation, cash and equivalents balance of ~Rs. 4.2 crore as on March 31, 2022, and buffer in undrawn working capital limits of ~Rs. 25 crore as on October 31, 2022. Although the long-term debt repayment obligations remain relatively high (~Rs. 65-70 crore p.a.) over the medium term, the Group’s cash flows are expected to remain comfortable in servicing the same.

Rating Sensitivities

Positive factors – ICRA may upgrade the ratings if the Group demonstrates sustained growth in revenue while maintaining profitability, leading to improvement in coverage indicators and liquidity on a sustained basis.

Negative factors – Negative pressure on the Group’s ratings could arise in case of a sharp deterioration in its credit profile and liquidity due to pressures on revenue and accrual generation and any material delays in receipt of incentives. Specific credit metrics that could lead to a ratings downgrade include Total Debt/OPBITDA (adjusted) of more than 2.5 times on a sustained basis.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Rating Approach- Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financials of MEPL and MMLLP.

About the Company

MEPL, the flagship company of the Mungi Group, was incorporated in 2004 and commenced commercial operations from 2006, with its first manufacturing facility at Nashik (Maharashtra). Promoted by Mr. Vivek Mungi, the company manufactures sheet metal components, assemblies, and aggregates. MEPL’s product profile consists of door assemblies, floor assemblies, axle tubes and banjo beam assemblies, which it supplies to OEMs such as M&M and TML. At present, the company has five manufacturing facilities, with one each at Nashik (Maharashtra) and Zaheerabad (Telangana) and three at Chakan, near Pune (Maharashtra).

MMLLP was incorporated in June 2016 (operational from June 2019) as a limited liability partnership, wherein MEPL holds 40% stake and the balance is held by the Mungi family. The LLP is in the same business sector as MEPL.

Key financial indicators (audited)

MEPL – Consolidated*	FY2021	FY2022
Operating income (Rs. crore)	708.7	1367.6
PAT (Rs. crore)	6.2	22.8
OPBDIT/OI	8.2%	7.1%
PAT/OI	0.9%	1.7%
Total outside liabilities/Tangible net worth (times)	2.0	2.3
Total debt/OPBDIT (times)	5.1	3.1
Interest coverage (times)	2.3	4.0

PAT-Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, * Consolidated financials are adjusted for receipt of incentive accounted through P&L account as other operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of Rating History for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of October 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020	
					Dec 19, 2022	Dec 22, 2021	Jan 11, 2021	Apr 14, 2020		
1	Cash Credit	Long-term	0.00	-	-	-	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)
2	Term Loan	Long-term	193.15	193.15	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)
3	Fund Based	short term	0.00	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+
4	Non-Fund Based Working Capital Facilities	Long-term and short term	29.94	NA	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Negative) / [ICRA] A2	[ICRA]BBB+ (Negative) / [ICRA] A2	[ICRA]BBB+ (Negative) / [ICRA] A2	[ICRA]BBB+ (Negative) / [ICRA] A2	[ICRA]A- (Negative) / [ICRA] A2+
5	Fund based Working Capital Facilities	Long-term and short term	100.00	NA	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Negative) / [ICRA] A2	-	-	-	-
6	Unallocated	Long-term and short term	0.00	-	-	[ICRA]BBB+ (Negative) / [ICRA] A2	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based – Term Loan	Simple
Long Term / Short Term – Non-Fund Based	Very Simple
Long term/short term- Fund based WC facility	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 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 1	FY2017	7.20%	FY2029	6.18	[ICRA]BBB+(Stable)
NA	Term Loan 2	FY2019	7.20%	FY2029	2.37	[ICRA]BBB+(Stable)
NA	Term Loan 3	FY2021	7.50%	FY2026	25.18	[ICRA]BBB+(Stable)
NA	Term Loan 4	FY2022	7.50%	FY2028	15.10	[ICRA]BBB+(Stable)
NA	Term Loan 5	FY2017	7.60%	FY2027	3.74	[ICRA]BBB+(Stable)
NA	Term Loan 6	FY2019	7.60%	FY2027	2.02	[ICRA]BBB+(Stable)
NA	Term Loan 7	FY2018	7.60%	FY2027	18.59	[ICRA]BBB+(Stable)
NA	Term Loan 8	FY2019	7.65%	FY2026	16.54	[ICRA]BBB+(Stable)
NA	Term Loan 9	FY2020	7.95%	FY2026	11.51	[ICRA]BBB+(Stable)
NA	Term Loan 10	FY2019	7.60%	FY2027	6.91	[ICRA]BBB+(Stable)
NA	Term Loan 11	FY2021	6.90%	FY2026	15.39	[ICRA]BBB+(Stable)
NA	Term Loan 12	FY2022	7.00%	FY2028	9.29	[ICRA]BBB+(Stable)
NA	Term Loan 13	FY2022	7.50%	FY2028	27.16	[ICRA]BBB+(Stable)
NA	Term Loan 14	FY2022	7.50%	FY2028	8.89	[ICRA]BBB+(Stable)
NA	Term Loan 15	FY2022	7.50%	FY2028	6.97	[ICRA]BBB+(Stable)
NA	Term Loan 16	FY2019	7.85%	FY2025	11.24	[ICRA]BBB+(Stable)
NA	Term Loan 17	FY2021	7.75%	FY2026	3.68	[ICRA]BBB+(Stable)
NA	Term Loan 18	FY2022	8.35%	FY2028	2.39	[ICRA]BBB+(Stable)
NA	Non-Fund based WC facility	NA	NA	NA	29.94	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Fund based WC facility	NA	NA	NA	100.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	MEPL Ownership	Consolidation Approach
Mungi Metal Craft LLP	40.00%	Full Consolidation

Source: Company

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