

February 02, 2024

## Mungi Engineers Private Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Term Loan	193.15	228.02	[ICRA]BBB+ (Positive); reaffirmed/assigned; outlook revised to Positive from Stable
Long Term / Short Term – Non-Fund Based	29.94	56.50	[ICRA]BBB+ (Positive)/[ICRA]A2; reaffirmed/assigned; outlook revised to Positive from Stable
Long term/short term- Fund based working capital facility	100.0	140.00	[ICRA]BBB+ (Positive)/[ICRA]A2; reaffirmed/assigned; outlook revised to Positive from Stable
<b>Total</b>	<b>323.09</b>	<b>424.52</b>	

\*Instrument details are provided in Annexure-I

### 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 a 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 outlook factors in ICRA's expectations that the Mungi Group will report healthy accrual generation over the near to medium term, strengthening its debt protection metrics and liquidity profile. The Mungi Group posted strong growth (44.2% YoY) in its revenue to ~Rs. 1,960 crore in FY2023 and ~Rs. 1,475 crore<sup>1</sup> in 9M FY2024, supported by healthy offtake from key customers, which include various established automotive original equipment manufacturers (OEMs), enhancement of manufacturing capacities and widening of the product base. ICRA expects flattish revenue growth in FY2024, supported by the volume growth in business, which will be offset by lower realisation owing to decline in steel prices. However, accrual generation is expected to remain healthy in line with FY2023, on the back of improvement in operating margins supported by economies of scale, product mix and receipt of subsidy income. Healthy internal accrual generation, coupled with no likely material increase in the Group's debt levels, is expected to further strengthen its debt protection metrics and return indicators.

The reaffirmation of the ratings continues to factor in the extensive experience of the Mungi Group's promoters in the domestic auto component industry and the Group's established business position in manufacturing of sheet metal components and heavy metal fabrication, which find application in full-form PVs and CVs, tractors, construction equipment (CE), etc. The Group also benefits from the established relationships and healthy share of business (SoB) with its reputed clientele, such as Mahindra & Mahindra (M&M) and Tata Motors Limited (TML).

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, relatively high reliance on debt to meet incremental working capital requirements and debt-funded capex incurred towards capacity expansions in the past few years, continued to result in relatively high leverage levels, as marked by TOL/TNW of ~2.3 times and Total D/OPBITDA of 2.7 times in FY2023. Although the same have improved in recent past and ICRA expects further improvement in these metrics in the near to medium term. The ratings also remain constrained by the exposure of the Group's

<sup>1</sup> As per provisional financials

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 FY2023. 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. Moreover, ICRA noted that MEPL has provided corporate guarantee to some of the related parties and any crystallisation of the contingent liability and its impact on the liquidity position will remain a key rating sensitivity.

## Key rating drivers and their description

### Credit strengths

**Long and established track record of promoters in the auto ancillary industry** – The Group has a qualified promoter and management team with a track record in the auto ancillary industry. The Group’s promoter, Mr. Vivek Mungi, has more than four decades of experience in this industry, which has helped drive the company’s growth over the years.

**Established relationships with key OEMs; healthy share of business in most components supplied by the company** - ICRA also derives comfort from the Group’s established relationships 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 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 grow over the medium term.

**Healthy scaling up of operations supported improvement in internal accrual generation** – The company’s revenue has scaled up post the pandemic, recording YoY growth of 94.2% in FY2022 and 44.2% in FY2023. In 9M FY2024, the company recorded revenue of Rs 1,475 crore. The healthy scale up of operations helped the company generate strong cash accruals in the last three fiscals.

### Credit challenges

**Moderate debt protection metrics due to continued debt-funded capex undertaken by the Group, although some improvement witnessed in the recent past** – Given the healthy growth in scale of operations, the elevated working capital requirements have kept the reliance on working capital debt relatively high. This, coupled with debt-funded capex incurred towards capacity expansions, has continued to result in moderate debt protection metrics with total debt/OPBITDA of 2.7 times and interest coverage of 5.3 times in FY2023, though improving from 3.1 times and 4.0 times, respectively, in FY2022. To support its growth momentum and achieve higher revenue diversification, the Group plans to incur capex of ~Rs. 130-140 crore over FY2024 and FY2025, primarily towards capacity expansion, widening of product base and modernisation of its facilities. While this capex is expected to be partly funded through debt, scheduled repayment of long-term debt and higher deployment of internal accruals for meeting incremental working capital funding requirements of a growing business, is expected to keep debt levels under check. This, coupled with healthy accrual generation, is expected to improve the debt protection metrics.

**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 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 highly competitive intensity in the industry, which restricts the Group’s pricing flexibility to an extent.

**Exposed to customer concentration risk and cyclicity inherent in the automotive industry** – The Group remains exposed to client concentration risk as M&M accounted for over 49% and TML for 23% of MEPL’s revenues in FY2023. However, the management remains focused towards enhancing customer diversification, 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 cyclicity inherent in the auto industry. The Group has 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 is **adequate**, supported by healthy internal accrual generation, cash and equivalents balance of Rs. 4.5 crore, and undrawn working capital limits of ~Rs. 39 crore as on December 31, 2023. Although the long-term debt repayment obligations remain relatively high (~Rs. 75-80 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 steady accrual generation, while maintaining its debt protection metrics and adequate liquidity position on a sustained basis.

**Negative factors** – Pressure on the Group’s ratings could arise in case of a sharp deterioration in its credit profile and liquidity position due to factors including pressures on revenue and accrual generation, stretch in the working capital cycle and any material delays in receipt of incentives. A specific credit metric that could lead to a ratings downgrade is if DSCR is below 1.4 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are 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 a 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	FY2022	FY2023
Operating income	1367.6	1985.4
PAT	22.8	54.6
OPBDIT/OI	7.1%	7.8%
PAT/OI	1.7%	2.8%
Total outside liabilities/Tangible net worth (times)	2.3	2.3
Total debt/OPBDIT (times)	3.1	2.7
Interest coverage (times)	4.0	5.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### 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 December 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
							Feb 2, 2024	Dec 19, 2022	Dec 22, 2021
1	Cash credit	-	--	-	-	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
2	Term loan	228.02	198.01	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
3	Fund based	-	--	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4	Non-fund based working capital facilities	56.50	--	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA] A2	[ICRA]BBB+ (Negative)/ [ICRA] A2	[ICRA]BBB+ (Negative)/ [ICRA] A2	
5	Fund based working capital facilities	140.00	--	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA] A2	-	-	
6	Unallocated	-	-	-	-	[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	FY2020	NA	FY2028	32.22	[ICRA]BBB+(Positive)
NA	Term loan 2	FY2018	NA	FY2028	165.80	[ICRA]BBB+(Positive)
NA	Term loan 3	FY2024	NA	FY2028	30.00	[ICRA]BBB+(Positive)
NA	Non-Fund based WC facility	NA	NA	NA	56.50	[ICRA]BBB+(Positive)/[ICRA]A2
NA	Fund based WC facility	NA	NA	NA	140.00	[ICRA]BBB+(Positive)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**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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