

November 02, 2017

Milton Cycle Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	10.00	[ICRA]BB+ (Stable); reaffirmed
Total	10.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) for the Rs. 10.00 crore¹ fund based facilities of Milton Cycle Industries Limited (MCIL)². The outlook on the long-term rating is ‘Stable’.

Rationale

The rating reaffirmation takes into account the satisfactory operational performance of MCIL wherein its sales volumes for cycles under own brand name ‘Milton’ have increased by 14% (from 2.45 lakh bicycles sold in FY16 to 2.81 lakh in FY2017) FY2017 aided by company’s geographical expansion initiatives. Further, the volumes in bicycles components have grown at a healthy pace as its principal customer; Atlas Cycles (Sahibabad unit). ICRA also notes that the two manufacturing units of Atlas Cycles – Sahibabad and Sonipat unit are managed by separate promoters wherein the Sahibabad unit has adequate liquidity profile supported by healthy short term liquid investments and cash balances. The rating action also factors in the improvement in sales realisations on account of increased revenue contribution of fancy bicycle segment in FY2017. ICRA expects the sales volumes of MCIL to increase in double digits in the current financial year, aiding its profitability. Further, the rating continues to take into account the long track record of the promoters in the bicycle industry.

The rating, however, continues to be constrained by the relatively low margins as well as the significant competition faced by the company from well entrenched domestic players, as well as Chinese imports in the growing fancy segment. Further, the client concentration of MCIL is high as the entire business related to bicycle components is derived from a single customer. Additionally, the company’s ability to strengthen its dealer network and manage its working capital intensity would remain the key rating sensitivities.

Key rating drivers

Credit strengths

- **Extensive experience of promoters in the industry**– The presence of the promoters in the bicycle industry for more two decades by virtue of its group company – Atlas Cycles, boosts the company’s bargaining power over its suppliers and its overall distribution network.
- **Higher sales volume aided by expansion of the distribution network** – In FY2017, the cycle volumes increased by ~14%, primarily aided by the addition of dealers in the newer geographies being added after the closure of Malanpur unit. The company has added ~30 dealers in the state of MP, Chattisgarh & Orissa, which are expected to double by the end of FY2018

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

- **Comfortable liquidity position of the company** - The liquidity position of MCIL is comfortable as is also reflected in low utilisation of working capital limits and healthy capitalisation indicators in FY2017.

Credit weaknesses

- **Vulnerability of profitability to any adverse fluctuation in input costs** - The key raw material for the company is steel. Bicycle business is characterized by relatively low margins and exposed to fluctuation in raw material prices
- **Fragmented industry characterized by intense competition from large number of players**- With the presence of large number of established as well as unorganised players the company faces high competition. The company also faces competition from cheaper Chinese imports in the Indian local market. Milton Cycles which are placed in the cheaper segment competes in the market with these unorganized market players.
- **High customers concentration risk**-With the revenue from Atlas Cycles Limited (Sahibabad Unit) accounting to ~45% of the total revenue in FY17, the company faces the risk of customer concentration.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

MCIL was started in 1960 to function as a group ancillary to Atlas Cycles' manufacturing units. The promoters of MCIL manage the Sahibabad unit of Atlas Cycles (Haryana) Limited. The company started as a component manufacturer involved in the manufacturing of bicycle parts like chains, freewheels, and BB Axles. After a family settlement in 2003, MCIL was attached to the Sahibabad division of Atlas Cycles (Haryana) Limited. In 2006, MCIL developed into a complete bicycle manufacturing unit, besides being an ancillary to the Atlas Cycles' Sahibabad division. MCIL now a plethora of models catering to the markets of Uttar Pradesh, Bihar, Jharkhand, and Andhra Pradesh, Nepal etc through its dealer network.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs.)	102.06	113.17
PAT (Rs. crore)	0.90	0.83
OPBDIT/ OI (%)	2.91%	2.65%
RoCE (%)	12.85%	12.93%
Total Debt/ TNW (times)	0.61	0.67
Total Debt/ OPBDIT	1.78	2.12
Interest coverage (times)	4.01	4.43
NWC/ OI (%)	4%	7%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					November 2017	October 2016	June 2015	Jan 2014	
1	Cash Credit	Long Term	10.00	10.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	

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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit	-	-	-	10.00	[ICRA]BB+ (Stable)

Source: the company

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