

Mahesh Hardware & Pipes Pvt Ltd

February 06, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities- Overdraft	30.0	[ICRA]BB+ (Stable); assigned
Fund-based Facilities- Working Capital Demand Loan	30.0	[ICRA]BB+ (Stable); assigned
Total	60.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating considers the extensive experience of the promoters in the polyvinyl chloride (PVC) pipes distribution business for over three decades. The rating derives comfort from the established market position of Mahesh Hardware & Pipes Pvt Ltd (MHPPL) as an authorised distributor of Supreme Industries Limited (Supreme) in Karnataka. Supreme has an established track record and strong market position in the PVC pipes industry, backed by its widespread distribution network and ability to introduce new products periodically. The rating favourably takes into account the diversified client base of the company with established network of dealers across the state. Further, the rating takes into consideration the company's healthy profitability and cash accruals and moderate capital structure as characterised by gearing of 1.1 times as on November 30, 2018 (1.1 times as on March 31, 2018). The rating is, however, constrained by the financial support extended to the financially weak group entities and MHPPL's stretched liquidity position as reflected by elongated receivables and high inventory resulting in high utilisation of fund-based limits. ICRA takes note of the susceptibility of the company's revenues to PVC prices which are in turn linked to crude oil prices. The rating is further constrained by the intensely competitive nature of the PVC pipe industry with presence of a large number of organised as well as unorganised players. With presence only in Karnataka, the company faces high geographical concentration risk.

Outlook: Stable

ICRA believes that MHPPL will continue to benefit from the extensive experience of its promoters in the PVC pipes distribution business. The outlook may be revised to Positive if the company is able to demonstrate healthy growth in revenues with sustained profitability and improvement in working capital management. Conversely, the outlook may be revised to Negative if the company reports lower-than-expected accruals due to decline in revenues or profitability or if the company's liquidity weakens with elongation in working capital cycle or higher-than anticipated capex.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the distribution business – MHPPL is owned and managed by Mr. Ashok Jain and his brother Mr. Mahendra Jain who has experience of over three decades in the PVC pipes distribution business. Apart from PVC pipes which constitutes 85-90% of total sales, the company's product profile also includes paint, water tanks, bathroom fitting, power tools, cement, water heater etc.

Established market position as an authorised distributor of Supreme – MHPPL has been an authorised distributor of Supreme for PVC pipes in Karnataka for more than 30 years. For last 20 years the company has been the largest distributor of PVC pipes for Supreme in India.

Large network of dealers – The company’s customer base is well diversified with a large network of ~2000 dealers across Karnataka. The top ten customers contributed to only 6% and 8% of the total revenues in FY2018 and 8M-FY2019, respectively.

Healthy profitability and moderate capital structure – The company’s operating margin remained healthy in the range of 9.6%-10.9% over last three years resulting in healthy accruals. As a result, capital structure of the company remained moderate (gearing of 1.1 times as on November 30, 2018) despite high dependence on working capital borrowings.

Credit challenges

Financial support to group entities – The company has made investments and extended huge loans and advances to its financially weak group entities- Mahesh Channel Partners LLP, Steel Glow Enterprises LLP and Shubh Ply & Veneers Private Limited totalling to Rs. 22.31 crore as on November 30, 2018 (Rs. 20.90 crore as on March 31, 2018).

Stretched liquidity due to high working capital intensity– The company’s working capital intensity as measured by NWC/OI remains high in the range of 25%-30% over last three years owing to stretched receivables and high inventory. The average utilisation of fund-based limits remained high at 94% for the 15-month period from October 2017 to December 2018.

Vulnerability to PVC prices – The company’s top line remains susceptible to the sales realisations which in turn are linked to the crude oil prices. The company’s revenue witnessed moderate growth of 3.9% in FY2018 as against 9.0% in FY2017 owing to the decline in PVC prices as well as slowdown in demand on account of implementation of Goods & Service Tax (GST) and Realty Estate regulation Act (RERA).

Intense competition and fragmented nature of the industry– The PVC pipes industry remain intensely competitive and fragmented, restricting the bargaining power as well as the pricing flexibility of players operating in the industry. Also, low value-additive nature of business exerts pressure on the company’s profitability. However, established presence of the company in the region it operates, provides comfort to some extent.

Liquidity Position

MHPPL’s liquidity position remains stretched as evident from the high reliance on the working capital borrowing. Further, the debt repayment obligation also remains moderately high over the medium term owing to the debt-funded capex undertaken by the company in the last 4-5 years. Due to healthy profitability, although the fund flow from operations remained positive in FY2018, the free cash flow turned negative on account of working capital outgo and capex undertaken by the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company.

About the company

Established as a proprietorship firm in 1989, MHPPL was reconstituted as a private limited company in 2009. The company is based out of Bangalore and is an authorised distributor of Supreme for PVC pipes in Karnataka. The company has a network of 2000 dealers spread across Karnataka. Over the years, the company has undertaken distributorship of other companies such as J.K. White Cements, Berger Paints India Limited, Bosch Limited, C.R.I. Pumps Private Limited, A.O. Smith India Water Heating Private Limited etc. for various products such as paint, water heater, cement etc. The company is owned and managed by Mr. Ashok Jain and his brother- Mr. Mahendra Jain. The other companies in the Group include- Mahesh Channel Partners LLP (distributor of home appliances), Steel Glow Enterprises LLP (fabrication work of stainless furniture), Shubh Ply and Veneers Pvt. Ltd. (manufacturing of plywood).

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	314.8	326.9
PAT (Rs. crore)	15.8	16.3
OPBDIT/ OI (%)	10.9%	10.8%
RoCE (%)	24.4%	23.3%
Total Debt/ TNW (times)	1.2	1.1
Total Debt/ OPBDIT (times)	2.4	2.7
Interest Coverage (times)	4.5	4.5

Source: MHPPL and ICRA research; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; TNW: Tangible Net Worth; RoCE: Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Overdraft	Long Term	30.0	-	[ICRA]BB+ (Stable)	-	-	-
2 Working Capital Demand Loan	Long Term	30.0	-	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	NA	NA	NA	30.0	[ICRA]BB+ (Stable)
NA	Working Capital Demand Loan	NA	NA	NA	30.0	[ICRA]BB+ (Stable)

Source: MHPPL

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Ritika Periwal

+91 80 4922 5562

ritika.periwal@icraindia.com

Shikha Goyal

+91 80 4922 5500

shikha.goyal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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