

MRO-TEK Realty Limited

February 18, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit	10.00	10.00	[ICRA]B (Stable); Downgraded from [ICRA]B+ (Stable)
Long Term-Proposed	10.00	10.00	[ICRA]B (Stable); Downgraded from [ICRA]B+ (Stable)
Short Term-Letter of Credit/Bank Guarantee	4.00	4.00	[ICRA]A4; Reaffirmed
Short Term-Proposed	6.00	6.00	[ICRA]A4; Reaffirmed
Total	30.00	30.00	

*Instrument details are provided in Annexure-1

Material Event

MRO-TEK Realty Limited (MRO-TEK) has announced its quarterly results on February 07, 2019. The company reported operating income of Rs. 5.9 crore with operating loss (OBITDA) of Rs. 2.0 crore and net loss (PAT) of Rs. 2.6 crore in Q3 FY2019 against operating income of Rs. 4.3 crore with operating loss (OBITDA) of Rs 2.0 crore and net loss of (PAT) of Rs. 3.0 crore in Q3 FY2018.

The company reported operating income of Rs. 21.6 crore with operating loss (OBITDA) of Rs. 4.4 crore and net loss (PAT) of Rs. 6.9 crore in 9M FY2019 against operating income of Rs. 16.9 crore with operating loss (OBITDA) of Rs 2.0 crore and net loss of (PAT) of Rs 3.8 crore in 9M FY2018.

Rationale

The revision in the rating takes into account the company's weak operational performance with MRO-TEK recording a net loss of Rs. 6.9 crore on an operating income of Rs. 21.6 crore in 9 months-FY2019. The company reported losses primarily owing to weak order inflow from its customers under its access and networking segment and significant increase in employee expenses, which has also resulted in the erosion of the company's net-worth. Further its newly started Electronic Manufacturing Services (EMS) segments also reported weak performance against estimates resulting in lower revenues and profitability. The ratings continue to be constrained by company's modest scale of operations, limiting economies of scale and impacting its competitive positioning and pricing flexibility. The ratings also factor in the intense competition in the access and networking equipment industry and the high concentration of revenue on telecom majors with whom the company has limited bargaining power. ICRA also takes note of the ongoing consolidation in the telecom sector resulting in subdued order inflow.

The ratings, however, continue to derive comfort from MRO-TEK's long track record in the access and networking equipment business and its long-term relationship with reputed clients like Vodafone India Ltd., Bharti Airtel Ltd. and Tata Communications. The ratings favourably factor in the company's foray into the real estate business and the EMS and Solutions segment, to diversify its revenue stream and growth prospects, however, the scalability and profitability of the new segments are yet to be seen.

Outlook: Stable

ICRA believes MRO-TEK will continue to benefit from the long presence of the company in manufacturing of 'access and networking' equipment and its established customer base. With the telecom industry performance expected to remain weak in the near term coupled with suppressed capital expenditure plans and continued intense competition, the revenue growth outlook for MRO-TEK's 'access and networking segment' remains bleak. Under its EMS and Solutions segments, the company has acquired several new customers over last two years which is likely to support its revenue growth. The company has also started supplying networking products to Railways, which is expected to support its revenues over the near to medium term. The outlook may be revised to 'Positive' if the company reports significant increase in revenues driven by higher order inflow from its EMS and Solutions segments, resulting in better absorption of fixed expenses and improved profitability levels. Conversely, the outlook may be revised to 'Negative' if company continues to report significant losses at the operating and net levels, or if any delay in execution of orders in hand or stretch in the working capital cycle weakens the liquidity.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key rating drivers

Credit strengths

Established track record of more than three decades in telecom and networking equipment business: The Company has an established track record of more than three decades in manufacturing of access and networking equipment. The company has strong presence in products like convertors, modems, multiplexers, modems, ethernet switches etc. During FY2018, the company derived 53.7% of its revenues from 'access and networking' division under which the company has an established presence.

Moderately diversified product profile: The company has a moderately diversified product profile consisting of networking and access equipment under its 'access and networking segment'. The company has also added Electronic Manufacturing Services and Solutions division as additional business segments in order to diversify its revenues. Besides, the company is also expected to generate revenue from FY2021 onwards from the commercial property being developed by its group company, wherein MRO-TEK is the landowner.

Reputed domestic and international customer base: The Company has long established relationship with reputed clients like Vodafone India Ltd., Bharti Airtel Ltd. and Tata Communications in telecom sector resulting in repeat business. Under its EMS segment, the company has acquired several new customers like Schneider Electric India Pvt Ltd, Bharat Electronics Limited, Terumo Penpol Pvt Ltd, and Elmeasure India Pvt Ltd.

Credit challenges

Modest scale of operations limits financial flexibility to an extent; cash loss in 9M-FY2019: The operating income of the company remained modest at Rs. 21.6 crore in 9M-FY2019. This constrains the company's ability to benefit from economies of scale and limits its competitive positioning and pricing flexibility vis-à-vis the larger entities. The company reported a cash loss of Rs. 6.2 crore in 9M-FY2019 owing to weak order inflow and significant increase in employee expenses. Going forward, the company is expected to continue to incur losses at operating and net levels owing to bleak revenue visibility over the near term with expected increase in fixed overheads in order to scale up production in the new segments.

High customer concentration: The company's customer concentration remained high with the top-five customers accounting for 58% of the total revenues in FY2018, rendering the revenues vulnerable to variations in demand from these customers. However, the company has acquired several new customers under its EMS and Solutions segments which is likely to reduce the concentration going forward and support revenue growth to an extent.

Susceptibility to volatile raw material prices and forex rates: The operating profitability of the company remains vulnerable to volatility in raw material prices since it has limited ability to pass on the increase in prices to its customers. Further, as the company imports significant portion of the raw materials and components (including traded goods), its margin remains susceptible to adverse movement in forex rates in absence of any hedging policy.

Stiff competition in the ‘access and networking’ and EMS industry: The ‘access and networking’ and EMS industry is intensely competitive with the presence of several established companies limiting the company’s pricing flexibility.

Liquidity position

MRO-TEK’s liquidity position remains stretched with reducing turnover and increasing overheads, resulting in cash losses. However, it is supported by regular infusion of funds by the promoters as unsecured loans for servicing its debt obligations and meeting its working capital requirements.

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 statements of the company

About the company

MRO-TEK Realty Limited (erstwhile MRO-TEK Limited), founded in 1984, primarily manufactures access and networking products like modems, converters, switches and multiplexers. The name of the company was changed from “MRO-TEK Limited” to “MRO-TEK Realty Limited” with effect from May 11, 2016 with ‘Real Estate Development’ being included as an additional line of business. The existing solar-based equipment and integration services business was discontinued in January 2016, owing to sustained cash losses incurred in the business. In May 2016, Mr. Aniruddha Mehta, Mrs. Gauri Aniruddha Mehta and Umiya Holdings Private Limited entered into a share purchase agreement with the promoters of the company to acquire a stake of 39.66%. Subsequently, on August 8, 2016, Mr. Aniruddha Mehta was appointed as the Chairman and Managing Director after resignation of Mr. S Narayanan and Mr. H. Nandi (erstwhile promoters).

In FY2018, the company reported a net profit of Rs. 7.2 crore on an OI of Rs. 36.2 crore as compared to a net profit of Rs. 8.3 crore on an OI of Rs. 37.7 crore in the previous year.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	9M FY2019
Operating Income (Rs. crore)	37.7	36.2	21.6
PAT (Rs. crore)	8.3	7.2	-6.9
OPBDIT/ OI (%)	25.7%	25.0%	-20.3%
RoCE (%)	36.0%	36.9%	
Total Debt/ TNW (times)	2.8	1.6	
Total Debt/ OPBDIT (times)	2.2	1.8	
Interest Coverage (times)	4.2	7.5	-2.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs. crore)	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Feb 2019	Sep 2018	Sep 2017	Sep 2016	Jul 2015	
1 Cash Credit	Long term	10.00	-	[ICRA]B (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	
2 Unallocated	Long term	10.00	-	[ICRA]B (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	
3 Letter of Credit/Bank Guarantee	Short term	4.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
4 Unallocated	Short term	6.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	

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	Cash Credit	-	-	-	10.00	[ICRA]B (Stable)
NA	Fund Based-Unallocated	-	-	-	10.00	[ICRA]B (Stable)
NA	Letter of Credit/Bank Guarantee	-	-	-	4.00	[ICRA]A4
NA	Non-Fund Based-Unallocated	-	-	-	6.00	[ICRA]A4

Source: MRO-TEK Realty Limited

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