

McCoy Architectural Systems Private Limited

March 29, 2019

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-----------------------------------|----------------------------------|---|
| Long-term Fund-based Cash Credit | 4.00 | 4.00 | [ICRA]BB+(Stable); Downgraded from [ICRA]BBB-(Stable) |
| Long-term Term Loans | 4.00 | 5.00 | [ICRA]BB+(Stable); Downgraded from [ICRA]BBB-(Stable) |
| Short-term Non-fund Based | 17.00 | 16.00 | [ICRA]A4+; Downgraded from [ICRA]A3 |
| Total | 25.00 | 25.00 | |

*Instrument details are provided in Annexure-1

Rationale

The ratings revision factors in the deterioration in the financial profile of McCoy Architectural Systems Private Limited (MASPL) in FY2018 and 11M FY2019 as reflected by its weak capitalisation and debt coverage indicators, and stretched working capital indicators (mainly on account of increased receivables). The ratings also remain constrained by MASPL's modest and fluctuating revenues, and weak profitability indicators, as well as the exposure of its business operations to slowdown in infrastructure projects. The ratings further factor in the vulnerability of the company's profitability to fluctuations in raw material prices, and pricing pressures arising out of intense competition from numerous smaller players.

However, the ratings continue to favourably factor in the promoter's extensive experience and the company's established track record in supplying engineering architectural systems. Further, the ratings consider MASPL's diversified product profile, and its reputed and diversified customer base.

Outlook: Stable

ICRA expects MASPL to continue to benefit from the promoter's experience and technical expertise in manufacturing engineering architectural systems. The outlook may be revised to Positive if healthy increase in the order book position and faster project execution, along with timely commercialisation of its enhanced capacity, aid the company in scaling up its revenues and improving its operating profit margins (OPMs), and if improved working capital management strengthens its financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Promoter's extensive experience and company's established track record in supplying engineering architectural systems - The company, established in 1994, has a long operational track record of nearly 25 years in supplying engineering architectural systems. The company is managed by Mr. Ajay Atreya, who has over two decades of experience in the industry. MASPL successfully delivered architectural roofing systems for prestigious projects, such as

Terminal 1B of Mumbai Airport, D. Y. Patil Stadium (Navi Mumbai, Maharashtra) and 2010 Commonwealth Games Village (New Delhi).

Diversified product portfolio - MASPL mainly caters to two distinct segments - glass façade solutions and architectural roofing systems. In façade solutions, the products primarily include curtain walls, frameless glass, point glazing systems and aluminium composite panels; while in roofing solutions, the products include space frame structures, tensile membrane structures, skylight structures and insulated roofs. The company has distinguished itself from competitors through its ability to design and execute aluminium as well as steel structures.

Diversified and reputed client base - MASPL's customer portfolio includes clients from the corporate segment, as well as builders, developers and Government agencies. The company executed projects for reputed clients, like the Airports Authority of India, the Adani Group, JSW Steel Ltd., Reliance Infrastructure etc, in the past.

Credit challenges

Weak capitalisation and debt coverage indicators - The company's total debt increased to Rs. 11.54 crore as on February 28, 2019 (from Rs. 9.02 crore as on March 31, 2018 and Rs. 6.95 crore as on March 31, 2017), mainly on account of term loans availed for its capex plan. The increase in debt levels and the moderation in profitability levels weakened the company's capitalisation and debt coverage indicators. The gearing increased to 0.94 time as on February 28, 2019 from 0.62 time as on March 31, 2017. The debt coverage indicators declined as on February 28, 2019 as reflected by interest coverage of 2.48 times, TOL/TNW of 2.52 times, NCA/TD of 11% and TD/OPBDITA of 5.02 times, against interest coverage of 5.00 times, TOL/TNW of 1.84 times, NCA/TD of 20% and TD/OPBDITA of 3.02 times as on March 31, 2017.

Modest and fluctuating revenues; weak profitability indicators - The company's performance during the last five years remained volatile as reflected by its fluctuating revenues and profitability indicators. Despite a healthy revenue growth of 18% in FY2018, its scale of operations remained modest, as reflected by the operating income (OI) of Rs. 45.11 crore. In the current year, the company reported an OI of Rs. 32.18 crore till February 28, 2019. MASPL's OPM moderated from 7.92% in FY2016 to 5.85% in FY2017 and further to 5.25% in FY2018, owing to increased raw material costs and pricing pressures arising out of intense competition from small unorganised players. Subsequently, the net profit margin (NPM) reduced to 0.86% in FY2018 from 3.09% in FY2017. The company continued to report moderate profitability in the current year with an OPM of 6.54% and an NPM of 1.87% in 11M FY2019, as per the provisional estimates.

Stretched debtor position - The company's debtor days historically remained in the range of 60-75 days; however, the same increased to 88 days as on March 31, 2018 and further to 104 days as on February 28, 2019 (from 65 days as on March 31, 2017). The proportion of over six-month debtors, which was low till FY2016, stood sizeable at 37% of the total debtors as on March 31, 2018 and 28% as on February 28, 2019.

Susceptibility of operations to slowdown in infrastructure projects - The company's order flow mainly depends upon the activities in infrastructure and construction sectors. MASPL primarily provides architectural solutions for sport stadiums, toll plazas, skywalks, malls, residential and commercial complexes, hotels, theme parks, convention centres, car parks etc. Any slowdown in such projects may impact its prospects, as reflected in the fluctuating revenues during the last five years.

Vulnerability of profitability to volatilities in raw material prices and intense competition - The company's key raw materials are steel plates and coils used for fabricating structures, which form the bulk of its raw material costs. It also requires polycarbonate sheets, specialised fabrics, glass etc, which are used for roofing and cladding. The company's pricing, based on the prevalent market prices of raw materials, remains fixed till project completion, exposing its profitability to any unfavourable movement in the same. Further, the company faces intense competition from

numerous small players (who take orders at lower prices), leading to pricing pressures, which in turn affects its profitability.

Liquidity position

The company's cash flow from operations stood positive in FY2018 and 11M FY2019 due to lower incremental working capital requirements. However, its free cash flows stood negative during this period owing to sizeable outflow towards capex. The liquidity remained constrained by its elongated receivable days. The monthly utilisation of the fund-based working capital limits averaged at 89% of the sanctioned limits during the 14-month period ended January 31, 2019, providing limited cushion to liquidity. The company had a liquid cash and bank balance of Rs. 0.77 crore as on March 31, 2018 and Rs. 0.32 crore as on February 28, 2019. The company's term loan repayments for the next three years remain moderate at Rs. 0.64 crore in FY2019, Rs. 0.90 crore in FY2020 and Rs. 1.10 crore in FY2021.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | Standalone |

About the company

MASPL, founded in 1994, is an architectural engineering company, which acts as a creative engineer for designers and architects. It provides integrated solutions for architectural products, like steel enclosures (buildings), large span roofs, skylights, tensile membrane structures and glass façade. MASPL successfully delivered roofing systems for prestigious projects like D. Y. Patil Stadium, 2010 Commonwealth Games Village and Terminal 1B of Mumbai Airport. MASPL has branch offices in Mumbai, Delhi and Kolkata, and manufacturing facilities for steel and fabric fabrication at Navi Mumbai. It is setting up a manufacturing unit at Chakan, Pune (Maharashtra) to manufacture glass façade and aluminium structures.

In FY2018, the company reported a net profit of Rs. 0.39 crore on an OI of Rs. 45.11 crore, compared to a net profit of Rs. 1.21 crore on an OI of Rs. 39.25 crore in the previous year. In 11M FY2019, on a provisional basis, the company reported a profit after tax of Rs. 0.60 crore on an OI of Rs. 32.18 crore.

Key financial indicators

| | FY2017 (Audited) | FY2018 (Audited) | 11M FY2019 (Provisional) |
|------------------------------|---------------------|---------------------|-----------------------------|
| Operating Income (Rs. crore) | 39.25 | 45.11 | 32.18 |
| PAT (Rs. crore) | 1.21 | 0.39 | 0.60 |
| OPBDITA/OI (%) | 5.85% | 5.25% | 6.54% |
| RoCE (%) | 19.68% | 15.89% | 18.22% |
| Total Debt/TNW (times) | 0.62 | 0.78 | 0.94 |
| Total Debt/OPBDITA (times) | 3.02 | 3.81 | 5.02 |
| Interest Coverage (times) | 5.00 | 3.88 | 2.48 |

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 March 2019 | Date & Rating in FY2018 September 2017 | Date & Rating in FY2017 | Date & Rating in FY2016 March 2016 |
| 1 Fund-based Cash Credit | Long Term | 4.00 | - | [ICRA]BB+ (Stable) | [ICRA]BBB- (Stable) | - | [ICRA]BBB- (Stable) |
| 2 Term Loan | Long Term | 5.00 | 4.96* | [ICRA]BB+ (Stable) | [ICRA]BBB- (Stable) | - | [ICRA]BBB- (Stable) |
| 3 Non-fund Based | Short Term | 16.00 | - | [ICRA]A4+ | [ICRA]A3 | - | [ICRA]A3 |

*Outstanding as on February 28, 2019

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 | Long-term Fund-based Cash Credit | NA | NA | NA | 4.00 | [ICRA]BB+(Stable) |
| NA | Long-term Term Loans | FY2017 | 10.05% | FY2023 | 5.00 | [ICRA]BB+(Stable) |
| NA | Short-term Non-fund Based | NA | NA | NA | 16.00 | [ICRA]A4+ |

Source: MASPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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