

Mewar Hitech Engineering Limited

September 27, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-------------------|-----------------------------------|----------------------------------|---|
| Fund-based Limits | 10.00 | 10.00 | [ICRA]BB(Stable); upgraded from [ICRA]BB-(Stable) |
| Total | 10.00 | 10.00 | |

Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded its long-term rating to [ICRA]BB (pronounced ICRA double B) from [ICRA]BB- (pronounced ICRA double B minus) on the Rs. 10.00-crore¹ bank lines of Mewar Hitech Engineering Limited (MHEL). The outlook on the long-term rating is Stable.

Rationale

ICRA's rating action favourably factors in MHEL's strong top-line growth as well as its ability to generate healthy cash accruals, which helped in improving its debt protection metrics in FY2018. The rating also considers the company's established brand, Kingson, and its proven track record as a manufacturer of stone crushers and related products in the country. The rating continues to favourably factor in the extensive experience of the promoters in the industry and the operating efficiency, in terms of easy availability of raw material and absence of transportation costs, due to backward integration at the Group level. Furthermore, the top-line growth is expected to remain in double-digits in FY2019, buoyed by the higher sales volume in the domestic as well as export markets. ICRA believes that the company will benefit in the near term from the implementation of GST and will be better-positioned to face competition from players in the unorganised market.

However, the rating is constrained by MHEL's high working capital requirements owing to its long operating cycle resulting from the high inventory levels, thereby impacting the liquidity. The rating is also constrained by the company's limited financial flexibility given its limited net worth base. It is also susceptible to fluctuations in raw material prices, which may exert pressure on its profitability and debt protection metrics. The intense competition, from organised as well as unorganised players, is likely to keep the profitability range bound.

The company's ability to efficiently manage its working capital cycle and maintain a satisfactory liquidity position will be the key rating sensitivities. Any sizeable debt-funded capital expenditure will be closely monitored.

Outlook: Stable

ICRA believes MHEL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive on substantial growth in revenue and profitability and better working capital management, which would ultimately strengthen its financial risk profile. The outlook may be revised to Negative if the cash accruals are lower than expected, or a stretch in the working capital cycle weakens liquidity.

¹100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Strong growth in OI and consistent improvement in profit – MHEL’s operating income (OI) witnessed strong YoY growth in FY2018, mainly backed by a substantial increase in its order inflows from the domestic as well as export markets. This resulted from an increase in market penetration, supported by an extensive distribution network. MHEL’s profit also improved in FY2018, due to better operational efficiency and economies of scale. The strong growth in MHEL’s OI and consistent improvement in profit led to improved debt protection metrics in FY2018.

Reputed brand name – Kingson is an established name in the stone crusher manufacturing segment (including related products), and enjoys a strong brand presence in Madhya Pradesh, Rajasthan and a few other states in India. Its wide product offering, product customisation (as per the client’s requirement) and established name in the stone crushers manufacturing segment give it a competitive advantage in these markets.

Extensive experience of promoters – The company’s promoters have been involved in the business of manufacturing stone-crushing machines and other related equipment for the last 20 years. They have established relations with the customers and suppliers, which help in managing the business efficiently.

Backward integration helps in improving operational efficiencies – The company, along with its Group concerns, is present in the entire value chain with the in-house processes starting from scrap to the entire stone-crushing plant. This provides benefits in the form of easy availability of raw material, absence of transportation costs, and other operational efficiencies.

Credit challenges

Modest scale of operations restricts competitive position – The company’s modest scale of operations, in a fragmented industry, restricts the benefits of economies of scale and pricing power. The company’s scale of operations, on an absolute scale, remains moderate.

Liquidity impacted by high working capital intensity resulting from high inventory levels – MHEL’s high working capital intensity, resulting from its long operating cycle, impacts its liquidity as reflected by almost full utilisation of the working capital limits.

Intense competition limits bargaining power with customers – The company faces intense competition from other players in the industry, which limits its pricing flexibility and bargaining power with the customers, thereby putting pressure on its revenues and margins.

Profitability vulnerable to any adverse fluctuation in raw material prices – MHEL’s margins are largely affected by raw material price fluctuations, which, in turn, affect the sales realisations. Any adverse movement in raw material prices could have an adverse impact on its margins.

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

Mewar Hitech Engineering Limited (MHEL), incorporated in 2006 by Mr. C. S. Rathore and his family members, manufactures and sells stone crushers, vibrating screens, hoppers, feeders, conveyor belts and other related equipment. The company's manufacturing facility is in Sukher, Udaipur. MHEL sells its products under its brand, Kingson.

Key financial indicators

| | FY2017 | FY2018 |
|------------------------------|---------|---------|
| | Audited | Audited |
| Operating Income (Rs. crore) | 37.0 | 62.0 |
| PAT (Rs. crore) | 0.5 | 1.2 |
| OPBDIT/OI (%) | 11.4% | 8.4% |
| RoCE (%) | 13.5% | 16.4% |
| Total Debt/TNW (times) | 2.0 | 2.2 |
| Total Debt/OPBDIT (times) | 4.2 | 3.6 |
| Interest Coverage (times) | 1.6 | 2.3 |
| NWC/OI (%) | 51% | 31% |

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 FY2018 end (Rs. crore) | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 | | Date & Rating in FY2016 |
| | | | | September 2018 | January 2018 | March 2017 | December 2016 | July 2015 |
| Fund-based - Working Capital Facilities | Long Term | 10.00 | 9.79 | [ICRA]BB (Stable) | [ICRA]BB- (Stable) | [ICRA]B (Stable) | [ICRA]B; suspended | [ICRA]B |

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 | Fund-based Limits | NA | NA | NA | 10.00 | [ICRA]BB(Stable) |

Source: Mewar Hitech Engineering Limited (MHEL)

ANALYST CONTACTS

K Ravichandran
+91 444 5964301
ravichandran@icraindia.com

Manish Ballabh
+91-124-4545 812
manish.ballabh@icraindia.com

Hemant Dahiya
+91 124 4545365
hemant.dahiya@icraindia.com

Amit Arora
+91-124-4545 318
amita@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents