

August 09, 2019

## Magna Projects Private Limited: Ratings downgraded to [ICRA]D

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	9.00	9.00	[ICRA]D; Rating downgraded from [ICRA]BB (Stable)
Fund-based– WCDL	1.00	1.00	[ICRA]D; Rating downgraded from [ICRA]BB (Stable)
Non-fund Based – Bank Guarantee	10.00	10.00	[ICRA]D; Rating downgraded from [ICRA]A4
Unallocated Limit	15.00	15.00	[ICRA]D / [ICRA]D; Ratings downgraded from [ICRA]BB (Stable) / [ICRA]A4
<b>Total</b>	<b>35.00</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The downgrade of the ratings factors in the delay in debt servicing by Magna Projects Private Limited (MPPL) due to weakening in the overall financial profile of the company due to reduced demand of gold from jewellery manufacturers in eastern India. The ratings are also constrained by the fragmented structure and competitive nature of the bullion trading business, leading to a thin operating margin. ICRA also notes that MPPL remains highly vulnerable to the regulatory and market risks associated with the bullion-trading business, as reflected by weak demand for gold in the domestic market due to a high price level and regulatory measures like introduction of the Goods and Service Tax (GST) on gold.

The ratings, however, consider the experience of the promoters in the bullion-trading business and MPPL's long relationship with established clients. ICRA also notes that the company's capital structure has remained conservative historically.

### Outlook: Not Applicable

### Key rating drivers

### Credit strengths

**Long experience of the promoters in the bullion trading business** – The promoters have been involved in the bullion trading business for around two decades through MPPL. In addition, other entities in the Group are involved in gold jewellery wholesale and hallmarking business. The promoters' long experience in the industry renders operational strength to MPPL.

**Long relationship with clients primarily comprising jewellery manufacturers** – MPPL sells bullion to jewellery manufacturers and traders in West Bengal and other states in eastern India. Jewellery is sold to wholesalers and other jewellery manufacturers. MPPL’s long relationships with established clients reduce counterparty risks to some extent.

**Conservative capital structure** – MPPL’s capital structure has remained conservative historically. Its debt mainly comprises working capital borrowing. In FY2018, the company’s gearing increased to some extent due to higher working capital borrowing, however, the same still stood at a low level of 0.81 times (compared to 0.73 times in FY2017).

## Credit challenges

**Irregularity in debt servicing** – In respect of working capital demand loan (WCDL), the instalment (principal and interest) for the month of July 2019 has not yet been paid. Moreover, there is an over utilisation in the cash credit account in July 2019 which is not yet regularised.

**Significant decline in sales volumes over the last two fiscals due to reduced demand from jewellery manufacturers in eastern India** – MPPL’s turnover declined by around 37% in FY2018 and by around 45% in FY2019 because of a significant drop in sales volumes on the back of reduced demand of the bullion from the company’s existing customers in eastern India. In FY2018, the company’s operating margin also declined and it reported a net loss. In FY2018, MPPL’s debt coverage indicators were adversely impacted by a deterioration in profitability. The company’s debt servicing during the year was supported by unsecured loan availed from related parties.

**Exposed to regulatory and market risks associated with gold** – The company’s business remains highly vulnerable to both market and regulatory risks associated with gold. The price of gold in the domestic market is influenced by various factors like the price of the metal in the international market, foreign exchange rates as well as customs duty in India on gold import. The demand of gold depends on the price trends and economic scenario to a large extent, whereas the supply is mainly impacted by the Government’s policies on import. ICRA notes that weak demand for gold in the domestic market due to high price levels and increase in the effective tax rate on gold under the GST regime adversely impacted the company’s performance.

**Concentration of sales towards a single commodity** – MPPL primarily trades in gold in the domestic market, which accounts for a major portion (around 87% in FY2019) of the company’s revenue. This, in turn, gives rise to sales concentration risk towards a single commodity.

**Low operating profitability and cash accruals along with high intense competition** – Intense competition in the fragmented industry and the trading nature of operations continued to keep MPPL’s operating margin low (0.17% in FY2018). The company’s cash accrual also remained at a modest level historically and turned negative in FY2018.

**High geographical concentration risk** – The company’s sales are primarily concentrated in eastern India, particularly in Kolkata. As a result, it remains exposed to high geographical concentration risk.

## Liquidity Position:

MPPL’s average fund-based working capital utilisation remained at a high level of around 96% during the period December 2017 to May 2019. Moreover, the company has availed a working capital demand loan of Rs. 1.00 crore, which is scheduled to be repaid within April 2021, which can exert pressure on its liquidity, as cash accruals are expected to remain low.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Policy on Default Recognition</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial statements of MPPL

## About the company

MPPL, incorporated in 1996, is involved in trading of gold and silver, and jewellery manufacturing. Gold trading accounts for a major portion of the company's total revenues. The company sells bullion mainly to jewellery manufacturers and traders in West Bengal and other states in eastern India. MPPL's head office is in Kolkata and has branch offices in Patna and Bhubaneswar.

In FY2018, the company reported a net loss of Rs. 0.10 crore on an operating income of Rs. 831.87 crore compared to a net profit of Rs. 0.86 crore on an operating income of Rs. 1,316.34 crore in the previous year.

MPPL's Group company, G. N. Bullion Private Limited (GNBPL; rated at [ICRA]D ISSUER NOT COOPERATING) mainly manufactures and sells gold jewellery in the wholesale market.

## Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	1316.34	831.87
PAT (Rs. crore)	0.86	(0.10)
OPBDIT/OI (%)	0.24%	0.17%
RoCE (%)	13.62%	6.28%
Total Debt/TNW (times)	0.73	0.81
Total Debt/OPBDIT (times)	3.10	7.56
Interest coverage (times)	1.78	0.87

Source: MPPL

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating July 2019	Date & Rating in FY2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017 November 2016
1 Cash Credit	Long Term	9.00	-	[ICRA]D	[ICRA]BB (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Cash Credit (Proposed)	Long Term	-	-	-	-	-	[ICRA]BBB- (Stable)	-
3 WCDL	Long Term	1.00	-	[ICRA]D	[ICRA]BB (Stable)	-	-	-
4 Bank Guarantee	Short Term	10.00	-	[ICRA]D	[ICRA]A4	-	-	-
5 Bank Guarantee (Interchangeable)	Short Term	-	-	-	-	-	[ICRA]A3	[ICRA]A3
6 Unallocated	Long Term/ Short Term	15.00	-	[ICRA]D / [ICRA]D	[ICRA]BB (Stable) / [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](http://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	-	-	-	9.00	[ICRA]D
NA	WCDL	May 2019	-	April 2021	1.00	[ICRA]D
NA	Bank Guarantee	-	-	-	10.00	[ICRA]D
NA	Unallocated	-	-	-	15.00	[ICRA]D/ [ICRA]D

Source: MPPL

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

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