

January 07, 2020

Magnam Netlink Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	3.00	3.00	[ICRA]BB- (Stable); Reaffirmed
Non-fund-based Bank Guarantee	27.00	26.00	[ICRA]A4; Reaffirmed
Non-fund-based Letter of Credit^	14.10	12.00	[ICRA]A4; Reaffirmed
Unallocated Limits	-	1.00	[ICRA]BB- (Stable)/A4; Reaffirmed
Total	30.00	30.00	

*Instrument details are provided in Annexure-1

^Letter of credit is sublimit of Bank Guarantee

Rationale

The rating reaffirmation continues to factor in Magnam Netlink Pvt. Ltd.'s (MNPL) moderate financial risk profile as evident from the decline in operating income (OI) and profitability, moderate debt coverage indicators and high working capital intensity due to stretched receivables. The ratings further remain constrained by the vulnerability of operations to timely execution of the projects in hand, as per the contract parameters, to shield against invocation of adverse covenants such as the liquidated damage clause. The ratings also take into account the adverse foreign currency fluctuation risks due to import of machinery and the company's limited ability to pass on the same to its customers. ICRA also notes that MNPL faces stiff competition from other established players which keeps its margins under check.

The ratings, however, continue to derive comfort from the extensive experience of the key promoter, Mr. Mahesh Chandra Agarwal, in the dairy industry and his established relationships with clients and suppliers. The ratings also take into account MNPL's reputed and geographically diversified client portfolio, mainly comprising various dairy co-operatives.

The Stable outlook on [ICRA]BB- rating reflects ICRA's opinion that MNPL will continue to benefit from the extensive experience of its promoters in the dairy industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter in dairy industry - The key promoter, Mr. Mahesh Chandra Agarwal, has over 35 years of experience in the dairy industry, across entities such as the National Dairy Development Board (NDDB) and IDMC Limited. The long track record of the promoter, coupled with the in-house team of experienced professionals, ensures adequate in-house project planning and execution capabilities.

Reputed and geographically diversified client portfolio - The company has executed projects in various states of India such as Gujarat, Karnataka, Tamil Nadu, Punjab, Uttar Pradesh, Bihar, etc., thereby minimising geographic and political risks related to operations in a particular state. Furthermore, as most of its clients are reputed district co-operatives in the dairy industry, the counterparty risk is also limited.

Credit challenges

Moderate financial risk profile marked by moderation in OI and profitability along with high working capital intensity – MNPL’s OI declined during past two financial years as it declined by ~23% to Rs. 31.8 crore in FY2019 and by ~22% to Rs. 41.2 crore in FY2018 due to lower order inflow because of lower order inflow though outstanding order book of ~Rs. 68 crore gives revenue visibility for medium term. The company’s operating profitability declined to 5.8% in FY2019 from 8.6% in FY2018 due to intense competition. Consequently, the net margin declined to 4.1% in FY2019 from 5.1% in FY2018. MNPL’s coverage indicators also moderated as reflected by interest coverage at 1.8 times, Total Debt/OPBDITA of 5.4 times and NCA/Debt of 16% at the end of FY2019 compared with interest coverage at 3.5 times, Total Debt/OPBDITA of 1.5 times and NCA/Debt of 46% at the end of FY2018. The working capital intensity indicated by NWC/OI increased to 34% at the end of FY2019 from 3% at the end of FY2018 as the receivables days remained significantly higher at 205 days at the end of FY2019 against 115 days at the end of FY2018 with higher execution in the last quarter and delayed payment from a few customers.

Risk associated with timely completion of project as per contract terms – In the majority of the contracts awarded to MNPL, the machinery cost accounts for ~80-90% of the project value. Furthermore, MNPL imports most of the machinery from overseas suppliers, wherein delivery timings vary according to the complexity involved. This exposes the company to risks associated with the timely delivery of machinery and achievement of desired output from the same as per the contract terms. Failing this may trigger other performance-related contract covenants such as liquidated damage charges. Though, MNPL’s increased focus on processing-based jobs compared to packaging-based in dairy industry is expected to mitigate this risk partially.

Profitability vulnerable to foreign currency fluctuations – Since MNPL mainly imports machinery for its contracts, its profitability remains vulnerable to foreign exchange movements in the absence of a formal hedging policy. However, the company has increased purchase of indigenous machinery will mitigate risk to a certain extent.

Intense competition - The company faces stiff competition from established players such as IDMC Limited, Tetra Pak India, as well as from a few medium to small players. However, it benefits from its key promoter, Mr. Mahesh Chandra Agarwal’s extensive experience and established relationships with clients and suppliers.

Liquidity position: Stretched

MNPL’s liquidity profile remains **stretched** with negative cash flow from operation due to higher incremental working capital requirement and sizeable debt-funded capex planned in the medium term.

Rating sensitivities

Positive triggers: Substantial increase in scale and profitability on a sustained basis following the timely execution of orders in hand and inflow of new orders on a sustained basis. Also, substantial improvement in the receivables cycle leading to improvement in working capital intensity.

Negative triggers: Lower-than-anticipated growth in scale or deterioration in profitability due to cancellation/delay in project execution and/or non-fulfilment of contract parameters leading to attraction of adverse covenants. Also, further stretch in working capital cycle or inability to timely realise the receivables.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials of Magnam Netlink Pvt. Ltd.

About the Company

Incorporated in May 2010, Magnam Netlink Pvt. Ltd. (MNPL) is involved in setting up plants for the co-operative dairy segment/companies on a turnkey basis. Its range of services includes designing layouts, machinery procurement, installation and commissioning. The key promoter, Mr. Mahesh Chandra Agarwal, has over 35 years of experience in the dairy industry.

In FY2019, the company reported a net profit of Rs. 1.3 crore on an OI of Rs. 31.8 crore compared with a net profit of Rs. 2.1 crore on an OI of Rs. 41.2 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	41.2	31.8
PAT (Rs. crore)	2.1	1.3
OPBDIT/OI (%)	8.6%	5.8%
RoCE (%)	23.7%	14.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.1
Total Debt/OPBDITA (times)	1.5	5.4
Interest Coverage (times)	3.5	1.8
DSCR	2.9	2.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					07-Jan-2020	25-Oct-2018	23-Jan-2018	24-Aug-2016
1	Cash Credit	Long Term	3.00	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	[ICRA]BB (Negative)	[ICRA]BB+(Stable)
2	Bank Guarantee	Short Term	26.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+
3	Letter of Credit	Short Term	12.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+
4	Unallocated Limits	Long Term/Short Term	1.00	-	[ICRA]BB-(Stable)/A4	-	-	-

Amount in Rs. crore;

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	3.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	26.00	[ICRA]A4
NA	Letter of Credit	NA	NA	NA	12.00	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	1.00	[ICRA]BB- (Stable)/A4

Source: Magnam Netlink Pvt. Ltd.

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