

Rating Advisory

April 18, 2023 | Mumbai

Manugraph India Limited

Update as on April 18, 2023

This rating advisory is provided in relation to the rating of Manugraph India Limited

The key rating sensitivity factors for the rating include:

Upward Factors:

- Substantial improvement in operating performance with positive cash accrual for fiscal 2023
- Improvement in capital structure and liquidity

Downward Factors:

- Negative cash accrual in fiscal 2023
- Further deterioration in liquidity marked by decline in cash and cash equivalent
- Deterioration in working capital cycle leading to increase in debt, thus weakening the financial risk profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Manugraph India Limited (Manugraph) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If Manugraph continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circular SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2023/6 dt **January 06, 2023** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company

Incorporated in 1971 and promoted by Mr Sanat Shah, Manugraph manufactures single- and double-width web offset printing machines. The manufacturing facility is in Kolhapur, Maharashtra. The company has been recognized as an R&D house by the Department of Scientific and Industrial Research. Its strong R&D capability has facilitated the development of products such as the Smartline 4X1 machine (double-width) with a speed of 70,000 copies per hour (cph), Dreamline 4X1 machine (double-width) with a speed of 50,000 cph, and Ecoline 2X1 machine (single width) with a speed of 25,000 cph.

In fiscal 2018, the company entered the plastic packing industry by manufacturing flexo-machines, used for printing food packaging. It has partnered with Carraro Srl, Italy, and delivered its first order in March 2018.

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Revenue and net loss were Rs 34 crore and Rs 12 crore, respectively, in the first nine months of fiscal 2022, as against Rs 14 crore and Rs 27 crore, respectively, in the corresponding period of the previous fiscal

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Rating Rationale

May 04, 2022 | Mumbai

Manugraph India Limited

Long-term rating downgraded to 'CRISIL B-/Stable'

Rating Action

Total Bank Loan Facilities Rated	Rs.118 Crore
Long Term Rating	CRISIL B-/Stable (Downgraded from 'CRISIL B/Negative')
Short Term Rating	CRISIL A4 (Reaffirmed)

Rs.10 Crore Commercial Paper	CRISIL A4 (Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the long term bank facilities of Manugraph India Limited (Manugraph) to '**CRISIL B-/Stable**' from 'CRISIL B/Negative', while short term rating and commercial paper programme reaffirmed at 'CRISIL A4'.

The downgrade reflects weak operating performance of the company in the first nine months of fiscal 2022. While revenue has improved by 50% in first nine months of fiscal year 2022 as compared to corresponding period of previous fiscal, operating margins were negative on account of high operating expenses, especially employee expenses. Operating margins have remained negative since fiscal 2018, leading to negative cash accruals and erosion of net worth. Consequently, financial risk profile has weakened, leading to increase in gearing and stretch in liquidity.

The ratings reflect the company's susceptibility to cyclicity inherent in the end-user industry, weak capital structure and poor liquidity. These weaknesses are partially offset by its established position in the printing machinery industry in India.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has taken a consolidated view of Manugraph and its wholly owned subsidiary, i.e., Manugraph Americas Inc.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Weaknesses:

- Exposure to cyclicity inherent in the end-user industry**

Demand for newspaper printing machinery is linked to the capex plans of print media houses and macroeconomic scenario. The newspaper industry is moving from the traditional print format to the more user-friendly digital format. As a result, demand for newsprint is expected to remain low owing to decline in the circulation of newspapers and preference for digitized content. The situation has been further accentuated by the pandemic, significantly impacting revenue and profitability and resulting in the erosion of net worth despite the management's efforts to control cost, such as reduction in employee base. Scaling up of operations and improvement in profitability will remain key monitorables.

The company diversified into the plastic packaging industry in March 2018 to counter volatility in performance. Although the company receives inquiries, only a few have converted to work orders. The company has also started manufacturing components used in the engineering industry by taking orders from vendors as company already has capacity to manufacture such components. The performance is expected to remain subdued over the medium term because of low demand and absence of new orders.

- **Weak capital structure**

The company doesn't have any long-term debt and utilizes only fund-based facilities to fund its working capital requirements. Weak revenue profile and continued losses have increased dependence on debt and led to deterioration in net worth. Consequently, gearing is expected to increase in fiscal 2022

Strength:

- **Established position in the domestic printing machinery industry**

The company has been operating in the domestic single- and double-width web offset printing machine segment for 50 years. It uses superior technology, acquired through tie-ups with leading European printing machine manufacturers, such as VEB Polygraph and Manroland AG. It also has a strong research and development (R&D) team, which has facilitated the creation of new products such as the Smartline 4X1 machine (double-width) for high-end applications, and M360 Bookline press and folder for low-end applications, resulting in a large product portfolio.

Liquidity: Poor

Liquidity has been constrained due to negative cash accrual since the past few fiscals. Unencumbered cash and equivalent reduced to around Rs 10 crore as on Sep 30, 2021, from Rs 12 crore as on March 31, 2021. Fund-based limit has also reduced marginally to Rs 22 crore, as compared to Rs 23 crore as on March 31, 2021. Higher working capital requirements as compared to lower limits, has resulted in high utilisation of around 80% currently

Outlook: Stable

CRISIL Ratings believes the business risk profile will remain constrained over the medium term given high outflows towards employees. Financial risk profile is marked by weakening liquidity.

Rating Sensitivity factors

Upward Factors:

- Substantial improvement in operating performance with positive cash accrual for fiscal 2023
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Downward Factors:

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Key Financial Indicators

Financials as on / for the period		2021	2020
Revenue	Rs crore	29.39	118.35
Profit after tax (PAT)	Rs crore	-29	-35
PAT margin	%	-96.7%	-29%
Adjusted debt / adjusted net worth	Times	0.15	0.12
Interest coverage	Times	-5.09	-15.4

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

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ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating outstanding with outlook
NA	Bank Guarantee [^]	NA	NA	NA	14.0	NA	CRISIL A4
NA	Cash Credit	NA	NA	NA	23.0	NA	CRISIL B-/Stable
NA	Cash Credit ^{**}	NA	NA	NA	22.0	NA	CRISIL B-/Stable
NA	Letter of Credit [^]	NA	NA	NA	10.0	NA	CRISIL A4
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	49.0	NA	CRISIL B-/Stable
NA	Commercial Paper	NA	NA	7-365 days	10.0	Simple	CRISIL A4

^{**}Cash credit facility is completely fungible with letter of credit and bank guarantee

[^] Letter of credit is fungible with bank guarantee of up to 50% of the limit

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Manugraph Americas Inc	Full	Wholly owned subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	94.0	CRISIL B-/Stable	--	04-05-21	CRISIL B/Negative	28-12-20	CRISIL BB-/Negative	09-12-19	CRISIL BBB-/Negative	CRISIL A-/Stable	
			--	--	--	20-05-20	CRISIL BB+/Negative	10-05-19	CRISIL BBB+/Negative	--		
Non-Fund Based Facilities	ST	24.0	CRISIL A4	--	04-05-21	CRISIL A4	28-12-20	CRISIL A4+	09-12-19	CRISIL A3	CRISIL A2+	
			--	--	--	20-05-20	CRISIL A4+	10-05-19	CRISIL A2	--		
Commercial Paper	ST	10.0	CRISIL A4	--	04-05-21	CRISIL A4	28-12-20	CRISIL A4+	09-12-19	CRISIL A3	CRISIL A2+	
			--	--	--	20-05-20	CRISIL A4+	10-05-19	CRISIL A2	--		

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Bank Guarantee ^{&}	14	CRISIL A4
Cash Credit	23	CRISIL B-/Stable
Cash Credit [^]	22	CRISIL B-/Stable
Letter of Credit ^{&}	10	CRISIL A4
Proposed Long Term Bank Loan Facility	49	CRISIL B-/Stable

[&] - Letter of credit is fungible with bank guarantee up to 50% of the limits

[^] - Cash credit facility is completely fungible with letter of credit and bank guarantee

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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