

## Press Release

### Mel Systems And Services Limited

November 09, 2017

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 20.00 Cr.
<b>Long Term Rating</b>	SMERA B+ / Outlook: Stable
<b>Short Term Rating</b>	SMERA A4

\* Refer Annexure for details

### Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 20.00 crore bank facilities of Mel Systems And Services Limited. The outlook is '**Stable**'.

Mel Systems And Services Limited (MELSS), a Tamil Nadu-based company was incorporated in 1990. The company is engaged in the manufacturing of automated testing equipments and provides industrial automation services, repair solutions to several industries including defence, telecommunication and electronics. MELSS is headed by Mr. N. Ramachandran (Director) who possesses experience of over a decade in the business of electronics and IT Solutions.

### Key Rating Drivers

#### Strengths

- **Established track record of operations and experienced management**

MELSS commenced operations in 1990. The management has over two decades of experience in the industry.

- **Reputed clientele and healthy order book position**

MELSS caters to the Indian Railways, Flextronics Ltd., Salcomp (India), Vesuvius PLC (UK) among others. It has ~Rs.65.00 crore worth of orders in hand out of which orders worth ~Rs.17.00 crore are to be executed in FY2017-18.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by gearing of 1.93 times in FY2015-16 as against 1.37 times in FY2014-15. The Interest Coverage Ratio (ICR) stood at -0.59 times in FY2015-16 as against 1.67 in FY2014-15. However, in FY2016-17 (Provisional), the gearing and ICR ratios stood at 0.86 times and 1.98 times respectively. This is due to retention of profits in the business and subsequent reduction in total debt. The total debt stood at Rs.7.21 crore during FY2016-17 (Provisional) as against Rs. 13.08 crore during FY2015-16 which mainly consists of short term working capital facilities.

#### Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive. The company has written off bad debts of Rs.3.46 crore during FY2016-17 (Provisional). Besides, there have been delays in receivables. Also, debtors outstanding for more than six months stand at Rs.2.73 crore as on 31 March, 2017 (Provisional) as against Rs.6.86 crore as on 31 March, 2016.

### • Fluctuating trend in operating income and PAT margins

The operating income fell to Rs.15.85 crore in FY2015-16 from Rs.26.46 crore in FY2014-15. During FY2016-17 (Provisional), the company registered operating income of Rs.21.45 crore. The PAT margin fell to -20.60 percent in FY2015-16 from 0.10 percent in FY2014-15. However, in FY2016-17 (Provisional) the same stood at 7.53 percent.

### Analytical Approach

SMERA has considered the standalone business and financial risk profile of the entity.

### Outlook: Stable

SMERA believes that MELSS will maintain a stable outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues and net cash accruals while maintaining comfortable debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability or deterioration in the financial risk profile.

### About the Rated Entity - Key Financials

For FY2016-17 (Provisional), Mel Systems and Services Limited reported Profit after Tax (PAT) of Rs.1.62 crore on operating income of Rs.21.45 crore as compared to net loss of Rs.3.26 crore on operating income of Rs.15.85 crore in FY2015-16. The net worth stood at Rs.8.41 crore as on 31 March, 2017 (Provisional) as against Rs.6.80 crore a year earlier.

### Status of non-cooperation with previous CRA (if applicable)

As per CRISIL's rationale dated 25 Nov 2016, CRISIL has suspended CRISIL BB/Stable/A4+ ratings assigned to the bank loan facilities of MEL Systems and Services Limited. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information from the company.

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Aug-2017	Cash Credit	Long Term	INR 9	SMERA B+
	Term Loan	Long Term	INR 2	SMERA B+
	Bank Guarantee	Short Term	INR 4	SMERA A4
	Bank Guarantee	Short Term	INR 5	SMERA A4
07-Jun-2016	Cash Credit	Long Term	INR 9	SMERA B+ / Stable

	Term Loan	Long Term	INR 2	SMERA B+ / Stable
	Bank Guarantee	Short Term	INR 5	SMERA A4
	Bank Guarantee	Short Term	INR 4	SMERA A4

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.25	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.63	SMERA B+ / Stable
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.62	SMERA A4

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#### ABOUT SMERA

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