

Press Release

MECGALE PNEUMATICS PRIVATE LIMITED

19 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	SMERA A- / Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA A-**' (**read as SMERA A minus**) and short term rating of '**SMERA A2+**' (**read as SMERA A two plus**) on the Rs.75.00 crore bank facilities of Mecgale Pneumatics Private Limited (MPPL). The outlook is '**Stable**'.

MPPL, established in 1994 as a partnership firm and later reconstituted as private limited in 2003 is promoted by Mr. Tapas Sarkar and Mr. Taritkumar Sarkar. The company is engaged in the manufacturing of material handling system parts (such as ash handling system, pneumatic conveying system, coal handling systems, etc) and caters to various industries including power, steel and cement.

SMERA has consolidated the risk profiles of MPPL, Mecgale Automation Private Limited (MAPL) and Ace Conveyors Private Limited (ACPL) together referred to as "group" due to a common management and significant business and financial linkages between the entities. MAPL and ACPL provide equipments and undertake job work for MPPL.

Key Rating Drivers

Strengths

• Experienced management

The promoters, Mr. Tapas Sarkar and Mr. Taritkumar Sarkar have experience of three decades in the manufacturing industry. Some of the major clients include Maharashtra State Power Generation Company, Lafarge India Pvt. Ltd., NALCO, etc. The company draws repeat business through its long standing relationships with clients. The company has a strong in-house design team for ash handling, bulk material handling systems, etc. which further strengthens execution capabilities.

• Comfortable financial risk profile

The networth of the group is moderate at Rs.50.07 crore while gearing stood at 0.01 times with debt of Rs. 0.45 crore as on March 31, 2017, comprising only unsecured loans from promoters. The Total Operating Leverage (TOL)/ Total Net worth (TNW) ratio stood at 0.76 times. The Interest Coverage Ratio (ICR) is strong at 47.62 times, while the Net Cash Accruals (NCA)/Total Debt (TD) stood at 15.49 times ending FY2017. The operating margin of the group has been in the range of 11-12 percent in the past although it was lower in FY2017 at 9.66 percent due to increase in manufacturing cost. The group reported revenue of Rs.80.85 crore in FY2017, a growth of 5.3 percent over FY2016 while revenue for the 8-month period ended November, 2017 stood at Rs. 50.09 crore.

• Healthy order book

The company has a strong order book of Rs.268.40 crore as on 31 October, 2017, comprising private and government sector projects to be executed in the medium term. For FY2018, the group has an order book of ~Rs. 60 crore.

SMERA expects revenue to register strong growth given the order book status.

Weaknesses

• Working capital intensive operations

The operations are working capital intensive with GCA (Gross Cash Accruals) of ~247 days as on 31 March, 2017 compared to 215 days in the previous year. The increase is mainly on account of higher debtor days at 168 due to retention money being held with customers for a period of one year while inventory days stood at 45 as on 31 March, 2017. The working capital cycle draws support from the high credit period from suppliers. The management of working capital will be a key sensitivity parameter for the group.

• Cash flows dependent on receipt and timely execution of orders

The group's cash flows are exposed to economic cycles and timely execution of projects. The group faces intense competition from larger players in the industry.

SMERA believes that it is critical for the group to execute orders in hand within stipulated timelines to sustain performance.

Analytical Approach

SMERA has consolidated the risk profiles of the group companies due to significant business and financial synergies within the group comprising Mecgale Pneumatics Private Limited, Mecgale Automation Private Limited and Ace Conveyors Private Limited.

Outlook: Stable

SMERA believes that the outlook of the group will remain Stable over the medium term on account of healthy revenue visibility. The outlook may be revised to 'Positive' if the group exhibits significant and sustained growth in scale of operations while maintaining healthy profitability. On the contrary, the outlook may be revised to 'Negative' in case of decline in scale of operations or revenues adversely impacting margins and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	80.83	76.78	75.23
EBITDA	Rs. Cr.	7.19	9.14	7.99
PAT	Rs. Cr.	5.20	5.33	4.97
EBITDA Margin	(%)	8.90	11.91	10.63
PAT Margin	(%)	6.43	6.94	6.60
ROCE	(%)	15.51	19.70	36.39
Total Debt/Tangible Net Worth	Times	0.01	0.05	0.07
PBDIT/Interest	Times	44.50	7.90	13.54
Total Debt/PBDIT	Times	0.05	0.22	0.33
Gross Current Assets (Days)	Days	247	215	241

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

None

Any other information

None

Applicable Criteria

- Default Recognition-<https://www.smera.in/criteria-default.htm>
- Complexity Level Of Financial Instruments-<https://www.smera.in/criteria-complexity-levels.htm>
- Consolidation Of Companies-<https://www.smera.in/criteria-consolidation.htm>
- Manufacturing Entities-<https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	SMERA A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A2+ (Assigned)

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ABOUT SMERA

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