

Press Release

Mecgale Pneumatics Private Limited

March 14, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 107.50 crore (Enhanced from Rs.75.00 crore)
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

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

Further, Acuité has assigned long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short-term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs. 32.50 crore bank facilities of 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 group offers a range of end-to-end material-handling solutions that involve designing, engineering, manufacturing, constructing, and commissioning of material handling system parts (such as ash handling system, pneumatic conveying system, coal handling systems, water, effluent and sewage systems etc) and caters to various industries including power, steel and cement.

Analytical Approach

Acuité 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. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

Extensive experience of promoters with an established position in the material handling system with a diversified clientele

Mecgale group is one of the major players in the material handling system and has been undertaking turnkey projects for pneumatic conveying systems and provide end to end solutions for manufacturing Ash Handling System, Pneumatic Conveying System, Coal handling Systems, etc. The promoters, Mr. Tapas Sarkar and Mr. Taritkumar Sarkar have experience of three decades in this industry.

The customer base include Maharashtra State Power Generation Company, Lafarge India Pvt. Ltd., NALCO, ACC Limited, NTPC Limited, ISGEC Heavy Engineers Limited, Thermax Limited etc. The group has also diversified across the international markets to Latin America, Africa, Europe and derives the revenue to the tune of ~20 percent through export sales. The Mecgale group draws repeat business through its long standing relationships with clients. The group has a team of 250 trained people consists of more than 100 qualified and experienced engineers including strong in-house design team for ash handling, bulk material handling systems, etc. which further strengthens execution capabilities.

Y-O-Y revenue growth backed by healthy order book position

Mecgale group's revenues have grown to Rs.104.98 crore in FY2018 from Rs.82.60 crore in FY2017 and Rs.80.69 crore in FY2016. Over the years, the company has built a wide network and healthy trade relations with domestic as well as overseas clients. For FY2019, the revenues are booked to the tune of Rs. 84.59 crore for the period April to December, 2018. Acuité expects that the group will record healthy revenue growth over the medium term on account of strong order book of Rs.287.47 crore as on 31 December, 2018, comprising private and government sector projects.

Healthy financial risk profile

Mecgale Group has healthy financial risk profile marked by healthy tangible net worth, low gearing and healthy debt protection measures. The tangible networth of the group stands at Rs.56.63 crore as on 31 March, 2018 as against Rs.50.07 crore as on 31 March, 2017. The group follows conservative financial risk profile reflected by low gearing at 0.02 times as on 31 March, 2018 as against 0.01 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) however, stood at 0.55 times as on 31 March, 2018 as against 0.75 times as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 13.28 times for FY2018 as against 8.48 times for FY2017. Debt Service Coverage Ratio (DSCR) stood at 9.78 times in FY2018 as against 6.58 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 5.79 times as on 31 March, 2018 as against 14.16 times as on 31 March, 2017. Going forward, Acuité expects the financial risk profile to remain stable in the absence of major debt funded capex plans backed by healthy cash accruals.

Weaknesses

Continuous dependence on working capital albeit improvement

The operations are continuously dependent on working capital albeit improved with GCA (Gross Current Assets) of 206 days as on 31 March, 2018 compared to 239 days in the previous year. The high GCA remains due to higher debtor days at 140 as on 31 March 2018 compared to 165 days as on 31 March, 2017. The receivables are structured as ~10% advance and 75-80% of contract value on completion and erection of plant, while 10-15% of retention money is being held back as defect liability period (extending till 12-18 months). The working capital cycle draws support from the high credit period extended by suppliers. Acuité believes that adequate working capital management will remain a key rating sensitivity factor for the group.

Cash flows dependent on receipt and timely execution of orders

The group's cash flows are exposed to economic spending and receipts of orders. The group is partly dependent on successful bids and the tenders being released in the financial year. However with the current order book position, the group exhibits healthy revenue visibility for near to medium term. Further, some projects have elongated execution period from 6 months to 18 months thus faces challenge of timely execution of orders. Acuité believes that it is critical for the group to execute orders in hand within stipulated timelines for sustained performance.

Outlook: Stable

Acuité believes that the outlook of the group will remain Stable over the medium term on account of promoter's experience and 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.

Liquidity profiles

Mecgale Group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.6.48 to Rs.7.73 crore during the last three years through 2017-18, while its maturing debt obligations were nil over the same period. The cash accruals of the group are estimated to remain around Rs.8 – 10.50 crore during 2019-21 while its repayment obligation are estimated to be nil. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 206 in FY 2018. But the company has low reliance on working capital borrowings, the cash credit limit in the group remains utilized at 20 percent during the last 8 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.3.60 crore as on March 31, 2018. The current ratio of the group stand healthy at 2.50 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	104.98	82.60	80.69
EBITDA	Rs. Cr.	10.36	8.24	9.15
PAT	Rs. Cr.	6.67	5.21	5.33
EBITDA Margin	(%)	9.87	9.97	11.33

PAT Margin	(%)	6.35	6.30	6.61
ROCE	(%)	19.68	17.59	19.71
Total Debt/Tangible Net Worth	Times	0.02	0.01	0.05
PBDIT/Interest	Times	13.28	8.48	7.91
Total Debt/PBDIT	Times	0.11	0.05	0.22
Gross Current Assets (Days)	Days	206	239	205

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-12-2017	Cash Credit	Long Term	5.00	ACUITE A-/ Stable (assigned)
	Letter of credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)

*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	5.00	ACUITE A-/ Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A-/ Stable (assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)

Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ (Assigned)
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About Acuité Ratings & Research:

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