

## Press Release

Mecgale Pneumatics Private Limited

July 29, 2020

Rating Assigned and Reaffirmed



Total Bank Facilities Rated*	Rs. 120.00 Cr. (Enhanced from 107.50 Cr.)
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+(Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on Rs.107.50 crore bank facilities and assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on Rs. 12.50 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 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

Acuite 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 includes 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 at a CAGR of around 22 percent for the period under study from FY2016-FY2020. The group has registered revenues of Rs.175.95 crore in FY2020 as against Rs.156.48 crore in FY2019 and 107.80 crore in FY2018. Over the years, the group has built a wide network and healthy trade relations with domestic as well as overseas clients. The company has healthy order book position of Rs.335.17 crore as on June, 2020. Acuite expects that the group will record healthy revenue growth over the medium term on account of strong order book comprising private and government sector projects.

- **Healthy financial risk profile**

The financial risk profile is marked by healthy net worth, moderate gearing and debt protection measures. The tangible networth of the group stands at Rs.80.27 crore as on 31 March, 2020 (Provisional) as against Rs.66.46 crore as on 31 March, 2019. The group follows conservative financial risk profile reflected by low gearing at 0.03 times as on 31 March, 2020 (Provisional) as against 0.01 times as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) however, stood at 0.57 times as on 31 March, 2020 (Provisional) as against 0.96 times as on 31 March, 2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 5.72 times as on 31 March, 2020 as against 25.63 times as on 31 March, 2019.

The healthy revenue levels coupled with stable operating margins have resulted in healthy debt protection measures. The profitability margins of the group have remained fairly stable over the past three years ended with the operating margin ranging between 9 to 10.50 percent through FY2020. The Interest Coverage Ratio (ICR) stood healthy at 57.53 times for FY2020 as against 15.57 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 44.08 times in FY2020 as against 11.74 times in FY2019.

Acuite believes that the financial risk profile of the group will continue to remain healthy over the medium term on account of its healthy scale of operations, and no major debt-funded capex plans in the near term.

### Weaknesses

- **Continuous dependence on working capital albeit improvement**

The operations are continuously dependent on working capital albeit improved with GCA (Gross Current Assets) of 198 days as on 31 March, 2020 (Provisional) compared to 226 days in the previous year. The high GCA remains due to higher debtor days at 121 as on 31 March 2020 (Provisional) compared to 129 days as on 31 March, 2019. The receivables are structured as ~10% advance and 75-80% of the 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. Acuite 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 the challenge of timely execution of orders. Acuite believes that it is critical for the group to execute orders in hand within stipulated timelines for sustained performance.

### Rating Sensitivity

- Sustenance of revenue growth with an improvement of operating and PAT margins.
- Maintaining healthy financial risk profile.

### Material Covenants

None

### Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.8.00-15.00 crore during the last three years through 2018-20, while its maturing debt obligations were nil over the same period. The cash accruals of the group are estimated to remain around Rs.14.50-16 crore during 2021-23, while its repayment obligations are estimated to be nil. The group has moderate working cycle operations as marked by Gross Current Assets (GCA) of 198 days in FY 2020. This has led to lower reliance on working capital borrowings, the cash credit limit in the group remains utilised at around 55 percent during the last 6-month period ended May 2020. The group maintains unencumbered cash and bank balances of Rs.0.43 crore as on March 31, 2020. The current ratio of the group stood healthy at 2.48 times as on March 31, 2020. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and low repayments over the medium term.

### Outlook: Stable

Acuite believes that the outlook on the group will remain 'Stable' over the medium term on account of its promoter's extensive experience, healthy financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in

revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

#### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	156.48	107.80
PAT	Rs. Cr.	9.83	6.66
PAT Margin	(%)	6.28	6.18
Total Debt/Tangible Net Worth	Times	0.01	0.02
PBDIT/Interest	Times	15.57	13.27

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

Not Applicable

#### Any other information

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Mar-2019	Cash Credit	Long Term	5.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	2.50	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	55.00	ACUITE A2+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+/Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	30.00	ACUITE A2+/Stable (Assigned)
19-Dec-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- (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- /Stable (Reaffirmed)
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)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+ (Reaffirmed)

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**About Acuité Ratings & Research:**

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