

Press Release

Mecgale Pneumatics Private Limited

October 08, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 120.00 Cr.
Long Term Rating	ACUITE A/ Outlook: Stable (Upgraded from ACUITE A-/Stable)
Short Term Rating	ACUITE A1 (Upgraded from ACUITE A2+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A**' (**read as ACUITE A**) from '**ACUITE A-**' (**read as ACUITE A minus**) and short-term rating to '**ACUITE A1**' (**read as ACUITE A one**) from '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.120.00 crore bank facilities of Mecgale Pneumatics Private Limited (MPPL). The outlook is '**Stable**'.

Also, Acuité has upgraded and withdrawn the short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs.70.00 crore bank facilities of MPPL.

About the Company

Nagpur based 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.

Rationale for Rating Upgrade

The rating upgrade reflects a substantial improvement in the overall business and financial risk profile of the company over the last four years through FY2021. The improvement in the business risk profile is reflected through the increased scale of operation in FY2021 and FY2020 as compared to the preceding years. The growth in revenue is expected to be sustained in medium term backed by healthy order book position of Rs.383.61 crore. The operating margins of the company improved to 11.71 percent in FY2021 (Prov) from 10.89 per cent in FY2020. The improvement of operating margin was on account of decreased raw material prices and higher profitability from few contracts. The rating is further strengthened by healthy financial risk profile of the company marked by low debt, strong debt protection metrics and healthy liquidity. Healthy operating performance and low debt has resulted in healthy debt protection metrics. The interest coverage ratio stood at 12.73 times in FY2021 (Prov) as compared to 12.01 times in the previous year. The liquidity is healthy reflected by average bank limit utilisation of ~55 per cent in the last eight months ended August, 2021. Further, the net cash accruals stood at Rs.16.69 crore against no debt obligation in FY2021. The capital structure has improved over the years due to healthy cash accruals and low debt levels.

Analytical Approach

Acuité has consolidated the financial and business risk profiles of the group companies due to significant business synergies and common management 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 17 percent for the period under study from FY2017-FY2021. The group has registered revenues of Rs.195.96 crore in FY2021 (Prov) as against Rs.189.12 crore in FY2020 and 156.48 crore in FY2019. 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.383.61 crore as on 30 June, 2021. Acuité 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, gearing and debt protection measures. The tangible networth of the group stands at Rs.96.38 crore as on 31 March, 2021 (Provisional) as against Rs.80.65 crore as on 31 March, 2020. The group follows conservative financial risk profile reflected by low gearing at 0.04 times as on 31 March, 2021 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) however, stood at 0.67 times as on 31 March, 2021 (Provisional) as against 0.61 times as on 31 March, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood at 4.73 times as on 31 March, 2021 (Provisional) as against 5.18 times as on 31 March, 2020. 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 11.50 percent through FY2021. The Interest Coverage Ratio (ICR) stood healthy at 12.73 times for FY2021 (Provisional) as against 12.01 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 9.90 times in FY2021 (Provisional) as against 9.33 times in FY2020.

Acuité 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

- **Working capital intensive nature of operations**

The operations are working capital intensive in nature with GCA (Gross Current Assets) of 238 days as on 31 March, 2021 (Provisional) compared to 189 days in the previous year. The GCA remains due to higher debtor days at 189 as on 31 March 2021 (Provisional) compared to 134 days as on 31 March, 2020. The receivables are structured as ~10% advance and 75-80% of value of material is receivable against supply of material on prorate basis, 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 the 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.

Rating Sensitivities

- Sustenance of revenue growth with an improvement of operating and PAT margins.
- Deterioration in working capital management leading to stretched liquidity

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.7.72-16.69 crore during the last four years through 2018-21, while its maturing debt obligations were nil over the same period. The cash accruals of the group are estimated to remain around Rs.17-21 crore during 2022-24, while its repayment obligations are estimated to be nil. The group has working capital intensive operations as marked by Gross Current Assets (GCA) of 238 days in FY 2021. However, the reliance on working capital borrowings is moderate, the cash credit limit in the group remains utilised at around 55 percent during the last 8-month period ended August 2021. The group maintains unencumbered cash and bank balances of Rs.0.18 crore as on March 31, 2021. The current ratio of the group stood healthy at 2.29 times as on March 31, 2021. Acuité 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

Acuité 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	195.96	189.12
PAT	Rs. Cr.	15.73	14.20
PAT Margin	(%)	8.03	7.51
Total Debt/Tangible Net Worth	Times	0.04	0.04
PBDIT/Interest	Times	12.73	12.01

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
29-Jul-2020	Cash Credit	Long Term	5.00	ACUITE A- (Withdrawn)
	Cash Credit	Long Term	10.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+

14-Mar-2019	Bank guarantee	Short Term	55.00	(Reaffirmed) ACUITE A2+ (Reaffirmed)
	Bank guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Bank guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	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+ (Reaffirmed)
	Bank guarantee	Short Term	55.00	ACUITE A2+ (Reaffirmed)
	Bank guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank guarantee	Short Term	30.00	ACUITE A2+ (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A/ Stable (Upgraded)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A1 (Upgraded & Withdrawn)
State Bank of India	Bank guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A1 (Upgraded & Withdrawn)
Yes Bank	Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 (Upgraded & Withdrawn)
Bank of Baroda	Bank guarantee	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A1 (Upgraded)

Bank Guarantee of Rs.110.00 crore includes sublimit of inland letter of credit to the extent of Rs.20.00 crore.

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About Acuité Ratings & Research:

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