

## Press Release

### Mecgale Pneumatics Private Limited

December 27, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE A   Stable   Reaffirmed	-
Bank Loan Ratings	25.00	-	ACUITE A1   Assigned
Bank Loan Ratings	110.00	-	ACUITE A1   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	145.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A**' (read as **ACUITE A**) and short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on Rs.120.00 crore bank facilities of Mecgale Pneumatics Private Limited (MPPL).

Further, Acuite has also assigned its short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on Rs. 25.00 crore bank loan facilities of Mecgale Pneumatics Private Limited (MPPL). The outlook is '**Stable**'.

### Rationale for the rating

The rating reaffirmation is on account of the stable growth in the scale of operations as reflected through a compounded annual growth rate (CAGR) of 4.09% over the last three years through FY22. The rating also draws comfort from the established market position and extensive experience of the promoters in manufacturing of material handling system. Further, the rating factors in the group's healthy order book position of Rs 320 Crores as on November 2022, diversified and reputed clientele namely Maharashtra State Power Generation Group, NALCO, ACC Limited among others and healthy financial risk profile. However, these strengths are partially offset by the intensive nature of working capital operations and the group's dependence on timely execution of orders along with receipt of successful bids.

### About 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.

## About the Group

Mecgale group is a Nagpur based entity which offers a range of end-to-end material-handling solutions through its flagship group Mecgale Pneumatics Private Limited (MPPL). Other entities in the group include Ace Conveyors Pvt Ltd (ACPL) and Mecgale Automation Private Limited (MAPL). ACPL is engaged in manufacturing of specific components required in the systems designed and manufactured by MPPL. MAPL is engaged in manufacturing of electrical panels required in the systems manufactured by MPPL.

## Analytical Approach

### Extent of Consolidation

- Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profile of Mecgale Pneumatics Private Limited (MPPL), Ace Conveyors Pvt Ltd (ACPL) and Mecgale Automation Private Limited (MAPL) to arrive at the rating due to significant business synergies and common management. The group is herein referred to as Mecgale Group.

## 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 extensive experience of the promoters helps the company to maintain an longstanding relation with the reputed customer base which includes Maharashtra State Power Generation Group, Lafarge India Pvt. Ltd., NALCO, ACC Limited, NTPC Limited, ISGEC Heavy Engineers Limited, Thermax Limited etc. The group has diversified business 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.

Acuité believes that Mecgale group will continue to benefit from its experienced management, established relations with its customers and suppliers along with long track record of operations.

#### **Healthy order book position coupled with augmentation in business risk profile**

Mecgale group's revenues have grown at a CAGR of around 4.63 percent for the period under study from FY2020-FY2022. The group has registered revenues of Rs.216.65 crore in FY2022 as against Rs.182.47 crore in FY2021 and 189.12 crore in FY2020. Over the years, the group has built a wide network and healthy trade relations with domestic as well as overseas clients. The group has healthy order book position of Rs.320 crore as on November, 2022.

The group has also added a new segment of revenue for designing and construction of sewage treatment systems. The group currently has orders of Rs. 24 crores for such systems. The management expects this segment to grow in the near to medium term on account of increased focus of the government on developing smart cities. The management also sees a huge scope in the Flue Gas Desulphurisation (FGD) System for Thermal Power Plant & Fossil

Fuel Fired Boiler. With the governments increased focus on avoiding global warming the need for reduction of pollutant gases from the power plant through FGD system will be in huge demand. The group currently has various FGD projects of Rs. 80 crores at various stages of execution.

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 albeit modest network**

The financial risk profile of the group is healthy with a moderate network, low gearing and comfortable debt protection metrics. Tangible Network of the group stood at Rs. 118.45 crore as on 31st March, 2022 as against Rs. 97.19 crore as on 31st March 2021. Tangible network of the group has strengthened over the years on account of increase in accretion of profits to reserves. Total debt of the group stood at Rs. 6.23 crore as on 31st March 2022 as against Rs. 3.53 crore as on 31st March 2021. Debt profile of the group comprises of Rs. 0.21 crore of unsecured loans and Rs. 6.02 crore of short-term loans. Gearing of the group stood low at 0.05 times as on 31st March 2022 and 0.04 times as on 31st March 2021. Debt protection metrics of the group remained comfortable with interest coverage ratio of 21.77 times as in FY22 as against 12.21 times in FY21.

Acuité believes the financial risk profile of Mecgale group would remain healthy over the medium term on account of healthy scale of operations of the group,

## **Weaknesses**

### **Intensive nature of working capital operations**

The working capital operations of the group are intensive in nature marked by GCA days of 275 days in FY22 as against 289 days in FY21. The high GCA days are driven by higher debtor collection period. Debtors of the group stood at Rs. 120.05 crore as on 31st March 2022 and Rs. 98.97 crore as on 31st March 2021. The group has to maintain retention money of 10 percent of the project cost for the defect liability period which is 12-18 months. The group also has orders from various government entities where the payment are usually delayed and hence the debtor collection period stood at 201 days in FY22 as against 196 days in FY21. Creditor days stood at 133 days in FY22 as against 162 days in FY21. Inventory days of the group improved and stood at 39 days in FY22 as against 46 days in FY21.

Acuité believes that the working capital management for the group will remain a key rating sensitivity over the medium term.

### **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 operations leading to stretched liquidity

## **Material Covenants**

None

## **Liquidity Position Adequate**

Liquidity of the group is adequate marked by growing net cash accruals of the group. Net cash accruals of the group stood at Rs. 22.05 crore in FY22 as against 17.42 crore in FY21. The

group's reliance on working capital limits is moderate with maximum utilization of fund based working capital limits stood at 64.75 percent for 6 months ended September 2022 and bank guarantee limits remained utilized at 61 percent as on November 2022. The group maintains unencumbered cash balance of Rs. 0.75 crore as on 31st March 2022 and current ratio stood at 2.53 times as on 31st March 2022.

Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals and healthy operating performance of the group.

### **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.

### **Other Factors affecting Rating**

None

### **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	216.65	182.47
PAT	Rs. Cr.	21.26	16.58
PAT Margin	(%)	9.81	9.09
Total Debt/Tangible Net Worth	Times	0.05	0.04
PBDIT/Interest	Times	21.77	12.21

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

None

### **Any Other Information**

None

### **Applicable Criteria**

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

### **Note on Complexity Levels of the Rated Instrument**

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Oct 2021	Letter of Credit	Short Term	5.00	ACUITE A1 (Withdrawn)
	Bank Guarantee	Short Term	10.00	ACUITE A1 (Withdrawn)
	Bank Guarantee	Short Term	55.00	ACUITE A1 (Withdrawn)
	Bank Guarantee	Short Term	110.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	10.00	ACUITE A   Stable (Upgraded from ACUITE A-   Stable)
29 Jul 2020	Cash Credit	Long Term	5.00	ACUITE A- (Withdrawn)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Reaffirmed)
14 Mar 2019	Proposed Bank Guarantee	Short Term	30.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Long Term	2.50	ACUITE A-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	110.00	ACUITE A1   Reaffirmed
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1   Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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