

Press Release

Mechatronics Systems Private Limited

January 22, 2020

Rating reaffirmed



Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 75.00 crores bank facilities of MECHATRONICS SYSTEMS PRIVATE LIMITED (MSPL). The outlook is '**Stable**'.

MSPL is a Pune based integrated water resource management company engaged in providing automation and real time data solutions in areas such as real time hydro meteorological information systems, flood forecasting and flood management systems with dam automation, smart city water supply management among others. MSPL provides solution for water resources, dams, canals, and water-supply projects and primarily deals with government agencies and urban local bodies. MSPL was formed in 1991 as a partnership concern with the name 'Mechatronics'. The firm was reconstituted as private limited company in 1996 and its name was changed to Mechatronics Systems Private Limited (MSPL). MSPL is promoted by Mr. Ashok Karva.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoter of the entity Mr. Ashok Karva has more than two decades of experience in the water resource management project execution space. Mr. Ashok Karva holds BE degree in Electronics and Tele Communication Engineering. The company benefits from team of 200 professionals comprising of software engineers, hydrologists, electronics and instrumentation engineers, business graduates, installation and commissioning engineers. The promoter's extensive experience and expertise in the industry has helped the company to win repetitive orders from the government.

- **Healthy order book position**

The company has outstanding order book of more than Rs. 200.00 crore as on December 2019 executable over a period of 1-2 years providing revenue visibility over the near term. Operating income increased to Rs.153.63 crore in FY2019 from Rs.72.50 crore in FY2015 supported by successful winning of orders from government agencies and urban local bodies.

- **Moderate financial risk profile**

MSPL has a moderate financial risk profile marked by low net worth, moderate gearing and coverage indicators. The net worth of MSPL stood at Rs. 20.98 crore as on March 31, 2019 against Rs. 18.65 crore as on March 31, 2018. The gearing of the company increased to 1.58 times as on March 31, 2019 against 1.24 times as on March 31, 2018 due to additional working capital borrowings. The total debt of Rs. 33.17 crore as on March 31, 2019 comprises of short-term working capital facilities from the bank worth Rs. 29.56 crore and unsecured loans from directors of Rs. 3.61 crore. Interest Coverage Ratio (ICR) stood moderate at 1.83 times for FY2019 against 1.76 times for FY2018. Similarly, Debt Service Coverage Ratio (DSCR) stood at 1.61 times for FY2019 against 1.57 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.98 times as on March 31, 2019 against 1.72 times as on March 31, 2018. Acuite believes that the financial risk profile of the

company will improve owing to healthy order book position, improving profitability & no repayment obligations.

Weaknesses

- **Working capital intensive nature of operations**

MSPL's working capital operations are intensive marked by GCA days of 131 in FY2019 as against 126 days in FY2018. The GCA days are high on account of debtor and inventory days of 65 and 39 respectively. The company normally receives payment from government departments and urban local bodies within 30-60 days. Inventory days show an increasing trend due to increasing orders from the government agencies. The working capital facilities stood almost fully utilized during the last six months ended November 2019.

- **Highly competitive and tender based nature of business**

The project based industry is highly competitive with international players bidding for contracts. The company faces competition from international players such as Rubicon (Australia), Nippon Koei (Japan) among others. The nature of business is tender based which puts pressure on profitability margins. However, the company has repeatedly won tenders from government agencies which is well reflected in the company's increasing turnover. The company's profit margins are also improving year on year.

Rating Sensitivities

- Continuous improvement in the scale of operations and profitability leading to improvement in the overall financial risk profile.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

None

Liquidity Position: Adequate

MSPL has adequate liquidity marked by net cash accruals in the range of Rs.1.75 – Rs.2.50 crore during the last three years against no maturing debt obligations. The working capital operations are moderate marked by gross current asset (GCA) days of 131 in FY2019 as compared to 126 days in FY2018. The working capital facilities of the company remained almost fully utilized during the last six months period ended November 2019. The unencumbered cash and bank balances stood at Rs.1.07 crore as on March 31, 2019. The current ratio stood at 1.58 times as on March 31, 2019. Acuite believes that the liquidity of the company remain adequate owing to increasing net cash accruals and no repayment obligations.

Outlook: Stable

Acuite believes that MSPL will maintain a stable outlook over the medium term owing to its experienced management and improving financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while improving profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	153.63	130.37
PAT	Rs. Cr.	2.33	1.84
PAT Margin	%	1.52	1.41
Total Debt / Tangible Net Worth	Times	1.58	1.24
PBDIT / Interest	Times	1.83	1.76

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing entities - <http://acuite.in/view-rating-criteria-4.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. Crore)	Ratings/Outlook
28-May-2019	Overdraft	Long Term	9.50	ACUITE BBB- (Indicative)
	Cash Credit	Long Term	7.00	ACUITE BBB- (Indicative)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB- (Indicative)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Indicative)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Indicative)
	Proposed Bank Guarantee	Short Term	32.50	ACUITE A3 (Indicative)
14-Mar-2018	Overdraft	Long Term	9.50	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BBB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	32.50	ACUITE A3 (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
Overdraft	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- / Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.50	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Rishabh Mundada Analyst - Rating Operations Tel: 022-49294033 rishabh.mundada@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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