

Press Release

EMT MEGATHERM PRIVATE LIMITED

March 04, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 61.76 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 61.76 crore bank facilities of EMT MEGATHERM PRIVATE LIMITED (EMT). The outlook is '**Stable**'.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of EMT and MIPL to arrive at this rating. The consolidation is on account of common promoters, similar line of business and significant operational and financial linkages. The group is herein referred to as the 'EMT group.' Extent of consolidation: Full

EMT was incorporated in 1998 as Engel Machine Tools Private Limited by the Government of West Bengal (GoWB) and later in 2005 taken over by the Kolkata based Chanda family through Megatherm Electronics Private Limited (MEPL). Since takeover, the operations from MEPL gradually shifted to EMT. Currently, EMT is engaged in manufacturing of ladle refining furnace and continuous steel casting machines, transformer for steel and metal/ power industry and execution of EPC contracts for steel, foundry & forging and transformer sector. The operations are managed by Mr Shesadri Bhushan Chanda and Mr. Satadri Chanda.

Megatherm Induction Private Limited (MIPL) was incorporated in 2010 and operations commenced in September 2017. MIPL is engaged in manufacturing of induction melting furnace and induction heating and heat treatment equipment and aims to better penetrate into both the domestic and export market.

Key Rating Drivers

Strengths

Experienced management and long track record

The group has a long track record since 2005 resulting in an established market position especially in the eastern parts of India. The group is currently engaged in the manufacturing of induction equipment like induction melting furnace, induction heating furnace, electric arc melting furnace, ladle refining furnace and continuous steel casting machines and execution of EPC contracts for steel, foundry & forging and transformer sector. The group manufactures products where the design and execution requires technological expertise as the products are designed according to the specification of the customers. The professional expertise of the promoters, Mr. S. B. Chanda and his son Mr. Satadri Chanda in this line of business enables the company to get repeat orders from their clients.

Established market position backed by diversified product profile and strong relationship with customers

EMT group has an established market position in Eastern India backed by diversified product profile whereby catering to the steel, forging, metallurgy etc industries. Further, the company has an export market base in gulf countries contributing ~ 30-35 % of total revenue of EMT group. The group by virtue of their superior quality of its products and its long relationship with existing customers remains a major supplier in the induction equipment segment. The established position is further backed by repeated orders from the customers.

Improvement in turnover

The group achieved revenue of Rs 136 crore in FY 2018. Going forward, the same is expected to improve with commencement of operation in MIPL from September 2017. Further, the heating division of EMT Megatherm has been hived off to MIPL with focus for penetration into the domestic market. During the current year, the group has achieved revenue of ~ Rs 77 crs till 30th Sept'18 (provisional). However, the group has a satisfactory outstanding order book of around Rs.167 crore including export order book of Rs.91 crore. Further, the group has a diversified order book position in terms of number of clients. The company has also launched new products viz. Green furnace which would save around 100 units of power, TLC Foundry Panel and also plans to expand its transformer and distribution line of products. The same is expected to boost the sales further with the surge in the order book in the current financial year.

Weaknesses

• Working capital intensive operations

The operations of the group are working capital intensive reflected from the GCA days of 416 in FY 2018 as against 565 days in FY 17. The high GCA days are on account of Rs 37.31 crore being stuck in receivable from the holding company MEPL (which is fully realised during the current financial year.) Further, the group undertakes order based contract with relatively longer processing period necessitating high inventory holding. The working capital requirement also increases as a certain portion of its receivables get blocked as retention money, which is released by clients upon expiry of defect liability period. The working capital intensity is further reflected from almost full utilization of working capital limit.

• Moderate financial risk profile

The moderate financial risk profile is marked by modest net worth and gearing and debt protection measures. The net worth of the company stood at Rs.52.31 crore as on 31 March, 2018 as against Rs.46.16 crore in the previous year. The gearing stood at 1.74 times as on 31 March, 2018 as against 1.80 times in the previous year. The interest coverage ratio stood at 1.59 times in FY2018 as against 1.31 times in the previous year. The debt service coverage ratio stood at 1.33 times in FY2018 as against 0.97 times in the previous year. The NCA/TD ratio stood at 0.07 times in FY2018 as against 0.03 times in the previous year. Going forward, Acuité expects the financial risk profile to improve on the back of prepayment of Rs 9.95 crore of long term loans.

Liquidity Position:

The group has moderate liquidity profile marked by net cash accruals in the range of Rs.1.56 crore to Rs.5.39 (FY 2016-2018) crore against its Rs 2- Rs 4.47 crore debt obligations during the same period. The fund based working capital limit remains utilised at full level of during the 12 months period ended November 2018 due to the working capital intensity of operations.

Outlook: Stable

Acuité believes that EMT group will maintain 'Stable' outlook over the medium term from experienced management. The outlook may be revised to 'Positive' in case the group registers sustained growth in revenues while improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in financial risk profile or if the working capital cycle further elongates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	136.40	87.80	94.96
EBITDA	Rs. Cr.	17.71	8.98	8.79
PAT	Rs. Cr.	3.58	0.23	1.10
EBITDA Margin	(%)	12.98	10.23	9.26
PAT Margin	(%)	2.63	0.26	1.16
ROCE	(%)	11.96	7.79	18.76
Total Debt/Tangible Net Worth	Times	1.74	1.80	1.67
PBDIT/Interest	Times	1.59	1.21	1.21
Total Debt/PBDIT	Times	4.87	7.94	5.65
Gross Current Assets (Days)	Days	416	565	502

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	35.00	ACUITE BBB- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.76	ACUITE BBB- / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3

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About Acuité Ratings & Research:

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