

Press Release

MEGATHERM INDUCTION PRIVATE LIMITED

March 06, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs. 63.48 Cr. (Enhanced from Rs.51.00 crore)
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to '**ACUITE A4+**' (read as **ACUITE A four plus**) the Rs.63.48 crore bank facilities of Megatherm Induction Private Limited (MIPL). The outlook is '**Stable**'.

The rating downgrade is reflected by the change in rating approach and the information risk as the company has not submitted the information of EMT Megatherm Private Limited (EMT) which was consolidated with MIPL and referred to as EMT Group during the previous rating process.

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.

Analytical Approach

During the previous rating exercise, ACUITE had consolidated the business and financial risk profiles of EMT Megatherm Private Limited (EMT) and Megatherm Induction Private Limited (MIPL) for analytical purposes. The consolidated approach was based on the premise that these companies, collectively referred to as the EMT group, were in the same line of business, and under the same promoter group and management and there would be operational and financial linkages. However, ACUITE has now adopted a standalone approach owing to non-availability of information for EMT.

Key Rating Drivers

Strengths

• Experienced management

MIPL was incorporated in 2010 by Mr. Shesadri Chanda Bhusan and Mr. Satadri Chanda who has experience of over three decades in the electrical machinery industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Further, the experience of the top management and second level management, company has been able to expand its business.

Acuite believes that MIPL will continue to benefit from its experienced management and established relationships with customers and suppliers.

• Improvement in scale of operations and profitability

The revenue of the company has grown by 182.22 percent marked by Rs.108.33 crore in FY2019 as against Rs.38.39 crore in the previous year. The improvement in revenue is backed by increase in orders and clientele. The operating margins stood at 11.19 per cent in FY2019 as against 11.41 per cent in FY2018. Profit after Tax (PAT) margins have deteriorated to 3.73 per cent in FY2019 from 4.26 per cent in FY2018. This is majorly because of the increase in depreciation and interest cost. However, operating margins stood at 12.43 per cent and PAT margins stood at 7.57 per cent for the period April, 2019 to January, 2020 (provisional).

Acuite believes that the scale of operations will continue to increase on the back of healthy order book marked by domestic orders of Rs.65.00 crore and export orders of Rs.71.51 crore.

• **Moderate financial risk profile:**

The financial risk profile of MIPL is moderate marked by moderate net worth, debt protection measures and high gearing. The net worth stood moderate at Rs.34.17 crore as on 31 March, 2019 as against Rs.23.93 crore in the previous year. The gearing (debt-equity) has improved to 0.85 times as on 31 March, 2019 as against 1.26 times as on 31 March, 2018. The total debt as on 31 March, 2019 of Rs.29.01 crore majorly comprises of term loan of Rs.19.36, unsecured loan of Rs.0.59 crore and working capital facility of Rs.9.06 crore. Interest Coverage Ratio (ICR) marginally improved to 2.48 times for FY2019 from 2.13 times for FY2018. Debt Servicing Coverage Ratio (DSCR) deteriorated to 1.60 times for FY2019 from 2.17 times for FY2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 2.03 times as on 31 March, 2019 as against 2.43 times as on 31 March, 2018. Net cash accrual to total debt (NCA/TD) stood at 0.20 times for FY2019 as against 0.08 times for FY2018.

Weaknesses

• **Intensive working capital management:**

MIPL has intensive working capital operations marked by high Gross Current Assets (GCA) of 197 days in FY2019 as against 373 days in FY2018. The inventory and debtor levels stood at 148 and 30 days in FY2019 as against 219 and 99 days in FY2017, respectively. However, the bank limit utilisation is around 55 to 60 per cent on an average for the last six months ending January, 2020.

• **Intense competition and inherent cyclical nature of various industry**

MIPL is exposed to intense competition in electrical machinery industry due to the presence of large number of players. Demand for the products manufactured by the company is majorly from steel and auto component industry. Thus, MIPL's business risk profile is exposed to the inherent cyclicity in these industries.

Rating Sensitivity

- Deterioration in scale of operations along with profitability.
- Deterioration in working capital operations.

Material Covenants

None.

Liquidity Position: Adequate

MIPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.85 crore in FY2019 as against Rs.2.45 crore in FY2018, while its maturing debt obligation was Rs.3.84 crore in FY2019 as against Rs.1.80 crore in FY2018. The company's working capital operations are intensive in nature as marked by high gross current asset (GCA) days of 197 in FY2019. However, working capital borrowings utilization is around 55 to 60 per cent during the last 6 months' period ended January, 2020. The company maintains unencumbered cash and bank balances of Rs.2.75 crore as on March 31, 2019. The current ratio of the company stands at 1.16 times as on March 31, 2019.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of improving cash accrual.

Outlook: Stable

Acuite believes that MIPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in MIPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	108.33	38.39
PAT	Rs. Cr.	4.04	1.63
PAT Margin	(%)	3.73	4.26
Total Debt/Tangible Net Worth	Times	0.85	1.26
PBDIT/Interest	Times	2.48	2.13

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

Not Applicable

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

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>

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
04-Mar-2019	Cash Credit	Long term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long term	21.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short term	10.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short term	10.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	04-08-2014	11.10%	31-03-2024	16.48	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A4+ (Downgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Downgraded from ACUITE A3)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Downgraded from ACUITE A3)

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About Acuité Ratings & Research:

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