



Press Release

Melco India Private Limited

May 13, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 127.00 crore
Long Term Rating	ACUITE BBB/ Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs. 10.00 crore bank facilities of MELCO INDIA PRIVATE LIMITED (MIPL). The outlook is '**Stable**'.

Acuité has also assigned the short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 117.00 crore bank facilities of MELCO INDIA PRIVATE LIMITED (MIPL).

Incorporated in 1995, Melco India Private Limited is engaged in turnkey execution of ash handling systems, mill reject systems and pollution control systems for thermal power plants, manufacturing and supplying equipment for these systems and their maintenance services. The company is promoted by Mr. V.K. Malik and Mr. Sandhir Malik. Earlier, the business was carried on as a partnership firm in the name of Melco Precisions since 1971. In the year 2019, the company shifted its business model to air pollution control systems from mere ash handling systems and has tied-up with international players such as United Conveyer Corporation (UCC), USA and Rafako, Poland.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MIPL to arrive at this rating.

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

MIPL was established as a partnership firm in the year 1971, and was later reconstituted as a private limited company in 1995. The company is promoted by Mr. V.K. Malik and Mr. Sandhir Malik. Mr. V.K. Malik holds experience of more than four decades and is ably supported by his son Mr. Sandhir Malik who has experience of more than two decades in the aforementioned line of business. The extensive experience of the promoters is reflected through the established relationships with the company's customers and suppliers. The order book comprises of orders from reputed clientele such as National Thermal Power Corporation (NTPC), Bharat Heavy Electricals Limited (BHEL), Tata Power and Ukai Thermal Power Station of Gujarat State Electricity Corporation Limited, to name a few.

Further, the company has booked revenue of Rs. 88.19 crore for the nine months ended as on 31st December, 2019 as against Rs. 60.08 crore in FY2019. MIPL is expected to continue to leverage its well

established relationships with reputed clients and suppliers.

Acuité believes that MIPL will continue to benefit from its established track record of operations and experienced management and their long standing relationships with reputed customers and suppliers.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by healthy gearing, above average debt protection metrics and coverage indicators.

The net worth of MIPL is moderate, estimated at around Rs. 42.74 crore as on 31st March, 2019. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy profitability.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.62 times and 1.44 times as on March 31, 2017, over the past three years. The leverage levels continue to remain healthy at 0.33 times as on March 31, 2019. The total debt of Rs. 14.28 crore as on 31 March 2019 comprised of long-term borrowings of Rs. 0.33 crores, unsecured loans from related parties of Rs. 6.46 crore and working capital borrowings of Rs. 7.49 crores.

MIPL's operating margins remained healthy, and improved from 11.89 per cent in FY2018 to 12.00 per cent in FY2019. The healthy profitability levels coupled with low debt levels have led to above average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were moderate at 0.23 per cent and 2.39 times, respectively.

Acuité believes that the financial risk profile of the company is expected to remain healthy on back of absence of any major debt funded capex plan and healthy accretion to reserves.

- **Reputed clientele and niche presence in the ash handling segment**

The company holds reputed clientele comprising of companies like National Thermal Power Corporation (NTPC), Bharat Heavy Electricals Limited (BHEL), Tata Power and Ukai Thermal Power Station of Gujarat State Electricity Corporation Limited, to name a few.

Earlier, the company was engaged primarily into turnkey execution of ash handling systems and their maintenance. Due to increasing industrial requirements or air pollution control systems owing to new emission standards notified by the Government of India, MIPL forayed into Fuel Gas Desulphurization (FGD) systems. For the same, the company has partnered with leading international companies engaged in the segment for technical knowhow and support. The company has executed an order from NTPC for dry sorbent injection (DSI) systems, which was scheduled to be commissioned by March 2020, but is delayed due to the breakout of COVID-19, followed by the lockdown throughout the country.

Further, MIPL has an unexecuted order book of about Rs. 258 crore for all the segments, which is 4.3 times of the revenue in FY2019, which shows adequate revenue visibility. Apart from the order book in hand, the company has bid for orders of around Rs 1017 crore.

Weaknesses

- **Small scale of operations**

MIPL is one of the smallest players in the ash handling segment with Operating Income of Rs. 60.08 crore in FY2019. MIPL is qualified for NTPC, BHEL and State Electricity board. MIPL has also adopted Air Quality Control Systems (AQCS) Technologies in line with the Paris Climate Conference. The company can provide EPC of AQCS Design, Engineering, Manufacturing and Supply, Testing at works, Erection,

Testing and commissioning, O&M of FGD systems to all the power plants and process Industries.

Acuité believes that MIPL's segment diversification, i.e. FGD systems is expected to add value to the company over the medium term.

• Working capital intensive nature of operations

MIPL's operating cycle reduced, yet remained elongated at 177 days during FY19 as against 179 days in FY18 due to high debtor levels. MIPL obtains orders through tendering and bidding process and receives payments as per the delivery of order. MIPL receives its payment in tranches and completion of one project takes around 1.5 to 2 years. Total debtors outstanding (excluding retention money) as on March 31, 2019 were Rs. 16.97 crores against Rs. 43.05 crores as on March 31, 2018. Company maintains 40 days of inventory in FY2019. MIPL's working capital limits over the last eleven months period were utilized at an average of ~75 per cent ended February 2020.

Acuité expects the operations of the company to remain working capital intensive on account of the high credit period extended to its customers.

Rating Sensitivity

- Significant improvement in its working capital management.
- Decline in profitability levels thereby impacting company's debt coverage indicators.

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.33 crore during FY2019, against maturing debt obligations of Rs. 0.16 crore. The cash accruals of MIPL are estimated to remain in the range of Rs. 8.27 crore to Rs. 12.49 crore in FY2020-22 as against no significant repayment obligations during the same period. The current ratio of the company stood at 1.32 times as on March 31, 2019. The average fund based working capital utilization for past eleven months ended December, 2019 stood at 75 per cent. The unencumbered cash and bank balances of MIPL stood at Rs. 1.54 crore as on March 31, 2019 (PY: 3.63 crore).

Acuité believes that the liquidity profile of the company is likely to remain adequate over the medium term in the absence of any debt funded capex.

Outlook: Stable

Acuité believes that MIPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	60.08	112.66
PAT	Rs. Cr.	2.39	6.85
PAT Margin	(%)	3.98	6.08
Total Debt/Tangible Net Worth	Times	0.33	0.54
PBDIT/Interest	Times	2.39	5.82

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous 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	4.00	ACUITE BBB/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Assigned)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Assigned)
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About Acuité Ratings & Research:

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