

**Press Release**

**Mechfast Engineering Pvt Ltd (MEPL)**

**March 18, 2020**

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Long Term Bank Facilities	7.40	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)
2	Short Term Bank Facilities	0.50	IVR A4+ (IVR A Four Plus)
3	Proposed Long Term Bank Facilities	6.10	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)
4	Proposed Short Term Bank Facilities	1.00	IVR A4+ (IVR A Four Plus)
	<b>Total</b>	<b>15.00</b>	

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The ratings assigned to the bank facilities of Mechfast Engineering Pvt Ltd (MEPL) derives comfort from extensive experience of its promoters in the steel industry, strategic location of its plant and its moderate financial risk profile. However, the rating strengths are partially offset by its short track of operations, lack of backward integration vis-à-vis volatility in prices, intense competition and cyclical nature in the steel industry. Moreover, the rating also considers expected moderation in its capital structure with increase in debt levels in near term.

**Key Rating Sensitivities**

**Upward revision factors:**

- Sustained improvement in the revenue and profitability with improvement in liquidity while maintaining the debt protection metrics.
- Sustenance of the capital structure and improvement in TOL/TNW to below 3x

**Downward revision factors:**

- Any decline in revenue &/or profitability leading to deterioration in liquidity position and debt protection metrics.

- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x and impairment in debt protection metrics

## List of Key Rating Drivers with Detailed Description

### Key Rating Strengths

- **Extensive experience of the promoters in the steel industry**

MEPL is currently managed by Mr. Deepak Sonthalia, Director, who has an experience of around 18 years in the similar line of business. Other major companies belonging to the promoters are BST Infratech Limited, which is engaged in the manufacturing of M.S Strips/Structural (60,000 MTPA), M.S/G.I pipes (96,000 MTPA), M.S Bars & wire rods (60,000 MTPA), M.S/G.I Wires (24,000 MTPA), Tubular poles (10,000 MTPA), and Transmission towers (24,000 MTPA).

- **Locational Advantage**

MEPL's unit is located at Jamuria, West Bengal. As Eastern India serves as a steel manufacturing and consuming hub due to its large iron ore and coal reserves, MEPL avails operational advantages from its strategic location. MEPL's clients are largely located in the state of West Bengal resulting in low transportation cost and timely delivery of products. Proximity to both raw materials sources and customers results in significant freight cost reduction and enhanced sales volume.

- **Moderate financial risk profile with expected moderation in the capital structure**

The company started commercial operation from March 2018, hence FY19 was its first full year of operations. The company reported revenue of ~Rs.179.00 crore in FY19 with a moderate EBITDA margin and PAT margin at 3.65% and 1.61% respectively. Moreover, the capital structure of the company also remained comfortable marked by debt equity ratio of 0.51x and overall gearing of 0.84x as on March 31, 2019. The debt protection indicators of the company like interest coverage also remains healthy at 5.38x and Total Debt/GCA also remained comfortable at 1.71x in FY19. Total indebtedness of the company as reflected by TOL/TNW remained moderate at 4.88x as on March 31, 2019. However, higher reliance on the bank borrowings to fund its working capital requirements restricts the financial risk profile of the company to an extent. Average utilization of fund-based limit of MEPL was high at ~93% during the last 12 months ended January 31, 2020. Moreover, the leverage ratios and debt protection parameters are expected to deteriorate in near term with infusion of fund by the promoters in the form of unsecured loan and expected increase in bank

borrowings to fund its growing scale of operation. During 9MFY20, the company has achieved a PBT of Rs.2.22 crore on a turnover of Rs.153.04 crore. Infomerics expects that despite moderation in the capital structure and debt protection metrics in near term the financial risk profile of the company will continue to remain moderate.

### **Key Rating Weaknesses**

- **Short track of operations**

The company started commercial operation since March 2018, hence FY19 was its first full year of operation. MEPL has short track of operation of only two years.

- **Lack of backward integration vis-à-vis volatility in prices**

Raw material consumption is the single largest cost component for MEPL. The company does not have any backward integration for its basic raw materials and has to purchase the same from open market. Since, the raw material is the major cost driver (constituting about 85% of total cost of sales in FY19) and with raw material prices being volatile in nature, the profit margins of the company remain susceptible to fluctuation in raw material prices.

- **Intense competition**

The steel manufacturing businesses is characterized by intense competition across the value chain due to low product differentiation, and consequent intense competition, which limits the pricing flexibility of the players, including MEPL.

- **Cyclicality in the steel industry**

The domestic steel industry is cyclical in nature and is likely to influence the cash flows of the steel players, including MEPL. The steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downtrend in the prices. Further, the company's operations are vulnerable to any adverse change in the demand-supply dynamics in the real estate sector.

### **Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Adequate**

The Company earned GCA of Rs.5.16 crore in FY19. Further, liquidity position of the company is expected to remain adequate marked by its expected cash accruals in the range of

~Rs.5 – 6 crore as compare to its debt repayment obligation in the range of ~Rs.0.10-1 crore in FY20-22. However, the average bank limit utilisation of the company remained high at ~93% during the past 12 months ended January 2020 indicating a low liquidity buffer. Enhancement in bank lines are critical for its liquidity position amidst expected growth in operations.

## **About the Company**

Mechfast Engineering Private Limited (MEPL) was incorporated in September 2011 to carry on the business of manufacturing of iron and steel products. After remaining dormant for about five-six years, the company commenced commercial operation from March 2018 with its first rolling mill for manufacturing of Mild Steel (M.S) strip. The manufacturing facility of the company is located at Jamuria in West Bengal, which is also in proximity to the mining areas of Odisha, West Bengal and Jharkhand with an installed capacity of 30,000 MTPA.

## **Financials (Standalone):**

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	3.03	178.57
EBITDA	-0.03	6.51
PAT	-0.51	2.88
Total Debt	7.82	8.83
Tangible Net worth	7.59	10.47
EBITDA Margin (%)	-0.84	3.65
PAT Margin (%)	-16.86	1.61
Overall Gearing Ratio (x)	1.03	0.84

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Nil

## **Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1	Cash credit	Long Term	3.90	IVR BB+ /Stable	-	-	-
	Term Loan	Long Term	3.50	IVR BB+ /Stable			
2	Bank Guarantee	Short	0.50	IVR A4+			

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
		Term					
3	Proposed Cash Credit	Long Term	6.10	IVR BB+ /Stable			
4	Proposed Bank Guarantee	Short Term	1.00	IVR A4+			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Ratings Assigned/ Outlook</b>
Long Term Bank Facilities- Cash Credit	-	-	-	3.90	IVR BB+ / Stable Outlook
Long Term Bank Facilities- Term Loan	-	-	Dec 2022	3.50	IVR BB+ / Stable Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	0.50	IVR A4+
Proposed Long Term Bank Facilities- Cash Credit	-	-	-	6.10	IVR BB+ / Stable Outlook
Proposed Short Term Bank Facilities- Bank Guarantee	-	-	-	1.00	IVR A4+
<b>Total</b>				<b>15.00</b>	