

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Melt-O-Therm Furnaces Private Limited

February 13, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities- Term Loan	1.55	IVR BB- /Stable (IVR Double B minus with Stable Outlook)	Assigned
Long Term Bank Facilities- Cash Credit	4.00	IVR BB- /Stable (IVR Double B minus with Stable Outlook)	Assigned
Long Term Bank Facilities- Proposed Cash Credit	4.27	IVR BB- /Stable (IVR Double B minus with Stable Outlook)	Assigned
Short Term Bank Facilities Bank Guarantee	0.18	IVR A4+ (IVR Single A Four Plus)	Assigned
Total	10.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Melt-O-Therm Furnaces Private Limited (MOTFPL) favorably factors in its experienced management, growth in operating income and moderate financial risk profile marked by comfortable debt protection metrics. However, the rating strengths are partially offset by intense competition, susceptibility of operating margin to input price volatility, exposure to foreign currency fluctuation risk and working capital intensive nature of operations.

Key Rating Sensitivities

Upward factor:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Improvement in the capital structure with improvement in net worth
- Improvement in the operating cycle

Downward factor:

- Any deterioration in scale of operation or moderation in profitability affecting the liquidity on a sustained basis
- Further elongation of operating cycle
- Moderation in the capital structure with deterioration in overall gearing to more than 2x and interest coverage ratio to less than 1.5x

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List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters

Incorporated in 2011 by Mr. Sandip Ghosh with operations commenced from FY 2015, the company has a track record of 5 years in manufacturing of aluminum extrusion products. Furthermore, along with the promoter, Mr. Gopal Malick the technical director of the company has long experience of over three decades in the aluminum sector. In addition, Mr. Ghosh has longstanding experience in the pharmaceutical industry. The experience of the promoters during the 5 years of operations has helped the company to achieve revenue of around Rs.30.78 crore in FY2019.

Sustained growth in operation income

The total operating income of MOTFPL has grown at a CAGR of ~54% over the last three audited financial years (FY 17-19). Further, the company has achieved a revenue of Rs.31.00 crore till January 31, 2020. The growth is driven by stabilisation of operation and increase of dealers and distributors across the state of West Bengal.

Moderate financial risk profile marked by comfortable debt protection metrics

The company has moderate financial risk profile marked by comfortable debt protection metrics. The interest coverage ratio stood comfortable at 2.69x in FY2019 (2.16x in FY2018) on the back of decrease in interest charges. The long term debt to equity ratio is comfortable at 0.24x as on March 31, 2019. The net worth stood modest at Rs.5.90 crore in March 31, 2019 (Rs.4.26 crore in March 31, 2018). Net worth comprises of unsecured loan of Rs.2.37 crore which has been treated as quasi equity based on the undertaking provided to bank that the same is subordinated and would not be withdrawn in the medium term. In addition ~ Rs.0.70 crore of equity has been infused in the business during the FY 2019-20. The overall gearing though has improved but remained moderate at 1.13x in FY2019 (1.65x in FY2018) due to increase in net worth.

Key Rating Weaknesses

Intense competition

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The operating spectrum of the company is characterised by intense competition across the value chain due to low product differentiation, presence of many organised and unorganised players and consequent intense competition, which limits the pricing flexibility of the players.

Volatile operating margin

The operating margins of the company has remained volatile during the period (FY 17-FY 19) on account of susceptibility of margins to input price volatility. Further, implementation of GST countrywide has increased competition among players across different states. As a result, the operating margin has declined to 6.49% in FY2019 from 11.65% in FY2018. During 9MFY20, the operating margin remained at 6.80%.

Exposure to foreign currency fluctuation risk

The company imports ~85-90% of raw materials from Australia and Singapore which involves huge risk of foreign currency transaction which may impact significantly on company's profitability. The company does not have any hedging mechanism currently for its foreign currency exposure through forward contracts. Thus, the forex exposure remains unhedged and thus exposes the company's profitability to exchange rate volatility.

Working capital intensive nature of operations

The operations are working capital intensive in nature as the company maintains high inventory of raw materials stored for production. Also the credit period extended to the customers of about 40-45 days. As a result the operating cycle of the company remained moderate at over 50 days in FY19. Further, the working capital intensity is reflected from ~98 % utilisation of its fund based limits during the past 12 months ended November 2019.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

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Liquidity: Adequate

The liquidity profile of MOTFPL is expected to remain adequate marked its satisfactory expected cash accruals of ~Rs.1.63 crore vis-a- vis its debt repayment obligations of ~Rs.0.91 crore in FY20. However, the average cash credit utilisation of the company remained high at ~98% during the past 12 months ended November, 2019 indicating a limited liquidity cushion.

About the Company

Incorporated in 2011, Melt-O-Therm Furnaces Private Limited (MOTFPL) is a West Bengal based company promoted by Mr. Sandip Ghosh. The company started its operation in September, 2015 and it is engaged in manufacturing of aluminum extrusion products with installed capacity of 3000 MT per annum.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	16.31	30.78
EBITDA	1.90	2.00
PAT	0.34	0.62
Total Debt	8.84	9.03
Tangible Net worth	2.43	3.53
EBITDA Margin (%)	11.65	6.49
PAT Margin (%)	2.06	2.01
Overall Gearing Ratio (x)	1.65	1.13

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

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.	Term Loan	Long Term	1.55	IVR BB-/ Stable	-	-	-

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				Outlook			
2.	Cash Credit	Long Term	4.00	IVR BB-/ Stable Outlook	-	-	-
3.	Proposed Fund Based Facilities	Long Term	4.27	IVR BB-/ Stable Outlook			
4.	Bank Guarantee	Short Term	0.18	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.

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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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	Sept'2020	1.55	IVR BB-/ Stable Outlook
Cash Credit	-	-	-	4.00	IVR BB-/ Stable Outlook
Proposed Fund Based Facilities	-	-	-	4.27	IVR BB-/ Stable Outlook
Bank Guarantee	-	-	-	0.18	IVR A4+