



Press Release

Megawin Switchgear Private Limited

August 25, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	40.00	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long-Term/Short- Term Bank Facilities	50.00	IVR BBB-; Stable / IVR A3 (IVR Triple B Minus with Stable Outlook / IVR A Three)	Assigned	Simple
Short-Term Bank Facilities	5.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	95.00 (Rs. Ninety Five crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Megawin Switchgear Private Limited (Megawin) derives comfort from its experienced promoters with proven execution capability, completely integrated operations, long relationships with reputed clientele, maintenance of decent Operating Margins despite challenges, comfortable debt servicing indicators, and a healthy order book visibility to revenue in the near term. These rating strengths are partially offset by stretched operating cycle and high working capital intensity, and high competition and cyclicity in the industry.

Key Rating Sensitivities:

Upward factors

- Sustained improvement in scale and profitability margins
- Sustained improvement in operating cycle
- Reduction of client concentration risk

Downward Factors

- Decline in scale of operations leading to a decline in margins
- Deterioration in capital structure due to increase in leverage
- Elongation of working capital cycle



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters & management team with long track record in the switchgear industry

The Company is a family-owned business which was founded by Mr. S Ganesan (Managing Director) in 1987. With a rich experience of more than three decades and an engineering background, he has expanded his business well and has successfully created a renowned position in the market. He is further assisted by an experienced and qualified pool of top management team comprising of other Directors (wife and family members) and senior level employees which enables the Company to have a long term vision and cope up with challenges. Thanks to the efforts of the top Management team, Megawin is currently one of the leading brands of medium voltage switchgear manufacturers in the country operating out of five state of the art manufacturing facilities in India.

Completely integrated operations

Megawin has completely integrated operations with two factories exclusively engaged in the production of finished goods and the balance three factories engaged in the production of various components necessary for the production of finished goods. CTs, VTs, Sheet metal fabrication, vacuum interrupters, electronic devices, bus bars, circuit breakers, etc., are all manufactured inhouse. There is a full-fledged machine shop with lathes, presses, and a variety of other machinery where all the machined parts of switchgears are manufactured. A tool room with vertical machining centres, milling machines etc. helps the Company to produce all the tools, dies and moulds for castings and other components. Backward integration helps the Company on two counts – maintenance of quality, and control on costs, ensuring the sustenance of the brand in the country.

Long relationships with reputed clientele

Megawin has long relationships with reputed clientele across the country with the relationship period being more than 10 years for many of its clients. Established relationships with reputed clientele has ensured repeated orders due to timely execution of past orders.



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Maintenance of decent Operating Margins despite challenges

Despite the impact of Covid in FY21, which resulted in the shut down of Megawin's plants in April and May 2020, the Company was able to register an impressive EBITDA margin of 15.19%. FY22 witnessed another challenge in terms of increasing raw material prices, however, the Company was still able to register an EBITDA margin of 11.50% in FY22. The Company is confident of passing on the increase in raw material prices to its end customers, however, there will be a lag. As the brand of the Company is quite established, the increase in prices will not be rolled back once the raw material prices cool off, thus resulting in increased operating margins in good times. Of course, price increases over the projected periods will further accentuate the operating margin.

Comfortable debt servicing indicators

The Company has not relied on long term debt to finance its sustenance and operations in recent history (FY18 to FY22). The debt servicing indicators have been quite sound in the past.. Debt servicing indicators are expected to remain good in the projected period, FY22-25 as well given good profitability and cash accruals.

Key Rating Weaknesses:

Stretched operating cycle and high working capital intensity

The business operations of the Company are working capital intensive in nature with high level of inventory and receivables. The Company generally maintains high raw material inventory, which majorly comprises of metal sheets and copper wires. The high stock of these materials are maintained in order to ensure a smooth manufacturing process without any interruption. Also, since the prices of these materials are highly volatile in nature, the management maintains sufficient stock in anticipation of any major price fluctuation in future. The Company's collection period is high as state utilities and electricity boards, which contribute 60-70% to the revenue, take a long time to pay due to procedural delays. Further, retention money from turnkey projects is released only upon commissioning of the projects, leading to higher receivables. Having said these, the Operating Cycle of the Company has improved from 519 days in FY21 to 364 days in FY22.



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High competition and cyclicalities in the industry

The capital goods industry is marked by cyclicalities and high competition and the case is no different for the switchgear manufacturers. Megawin faces stiff competition not only from the established players, but also from the unorganised sector players. The level of differentiation, to be fair, is not huge for Megawin or for that matter any player in the switchgear field. However, in terms of state utility supplies, the products need to be widely tested and approved by the relevant authorities such as Central Power Research Institute, etc. which acts as an entry barrier for new players. In the medium-voltage segment, the Company has been developing products, simultaneously evolving with new technology developments and needs of the customers, which enable Megawin to bid along with large players.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

The Company has a very comfortable current ratio of 2.48x in FY22 and this ratio is remaining above the 2.50x mark between FY23 and FY25. The long term debts are very nominal and the GCAs of each of the years between FY23 and FY25 are sound. The average utilisation of working capital limits (fund based and non-fund based) is moderate at ~ 80% in FY22. Unencumbered fixed deposits of INR8.62 crore was maintained as on 31st March 2022.

About the Company

Megawin Switchgear Private Limited is one of the largest Engineering and Manufacturing Company in the field of Medium Voltage Switchgear in India. Established in the year 1988, MEGAWIN has ushered in a slew of new products and ideas in the Switchgear Industry in India.

Megawin manufactures their products from three sophisticated full-fledged units at Salem catering to the core sectors of the economy, like Power Generation, Transmission and Distribution, Industries and Infrastructure Sectors.



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Financials of Megawin (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Income	112.49	141.84
EBITDA	17.02	16.11
PAT	5.10	6.46
Total Debt	65.90	34.21
Tangible Net worth	110.42	109.56
EBITDA Margin (%)	15.19	11.50
PAT Margin (%)	4.54	4.55
Overall Gearing Ratio (x)	0.60	0.31

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: (Rs. Crore)

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	CC	Long Term	40.00	IVR BBB-; Stable	-	-	-
2.	BG	Long Term/Short Term	50.00	IVR BBB-; Stable/IVR A3	-	-	-
3.	LC	Short Term	5.00	IVR A3	-	-	-

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India



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registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	40.00	IVR BBB-; Stable
Long Term/Short Term Non Fund Based Limits – BG	-	-	-	50.00	IVR BBB-; Stable/IVR A3
Short Term Non Fund Based Limits – LC	-	-	-	5.00	IVR A3



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Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Megawin-aug22.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instruments: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

