



Press Release

Megawin Switchgear Private Limited

October 10, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	75.99 (Enhanced from 40.00)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Long-Term/Short- Term Bank Facilities	40.00 (Reduced from 50.00)	IVR BBB-/ Stable /IVR A3 (IVR Triple B Minus with Stable Outlook and IVR A Three)	Reaffirmed	Simple
Short-Term Bank Facilities	10.00 (Enhanced from 5.00)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	125.99 (One Hundred and Twenty Five Crore and Ninety Nine Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of 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 capital structure and debt servicing indicators, and a healthy order book leading to revenue visibility in the near term. These rating strengths are partially offset by the 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

- 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



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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.

Maintenance of decent Operating Margins despite challenges

The operating margin decreased from 11.36% in FY22 to 9.99% in FY23, primarily because of four reasons – Firstly, the salary costs increased from INR10.50 crore in FY22 to INR15.92 crore in FY23 because of numerous senior level hires. This is line with the Company's strategy to leapfrog to the next level. Secondly, there were higher repairs and maintenance costs of INR3.19 crores, which were incurred for reintroducing two new product lines. Thirdly, the prices of electronic components went up sharply in FY23 compared to FY22. Lastly, the procurement prices of high-end relays from Siemens also went up sharply in FY23 compared to 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 can be seen, despite few challenges, the Company has been able to maintain decent operating margin at around 10% in FY23.

Comfortable capital structure and debt servicing indicators

The Company took recourse to GECL debt of INR15.99 crore in FY23 apart from utilising its cash credit limits. The overall gearing, however, did not get impacted to large extent in FY23 as the gearing figure was 0.34x on March 31, 2023 compared to 0.31x on March 31, 2022. This was because the increase in GECL debt was compensated by the lower utilisation of CC limits in FY23. Total indebtedness as marked by TOL/TNW improved from 0.66x on March 31, 2022 to 0.58x on March 31, 2023. ISCR improved from 2.24x in FY22 to 3.28x in FY23 while DSCR improved from 2.31x in FY22 to 3.16x in FY23. Thus, the capital structure and debt servicing indicators remained comfortable for the Company.

Healthy order book leading to revenue visibility in the near term

The Company had a healthy order book of around INR174 crore as on July 31, 2023. out of which INR120 crore needs to be executed in FY24 – this is apart from the INR56 crore of revenue already booked from April 2023 to August 2023. Apart from the existing order book, the Company is on the verge of closing an order value of INR 25 crore from a Rajasthan based



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contractor. Besides, the Company is already L1 in 3 government tenders amounting to INR60 crore. Thus, the existing order book and the upcoming orders provide adequate visibility to revenue in the near term.

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 368 days in FY22 to 330 days in FY23.

High competition and cyclicity in the industry

The capital goods industry is marked by cyclicity 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:



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[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning rating outlook](#)

Liquidity: Adequate

The Company had a very comfortable current ratio of 3.29x on March 31, 2023 and this ratio is remaining above the 3.65x mark between March 31, 2024 and March 31, 2026. The GCAs of each of the years between FY24 and FY26 comfortably cover the debt repayments due in the respective years. The average utilisation of fund based working capital limits was moderate at ~ 53% between September 2022 and August 2023. Unencumbered fixed deposits and cash balance of INR7.90 crore was maintained as on 31st August 2023.

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.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Provisional
Total Income	141.42	146.84
EBITDA	15.92	14.59
PAT	6.33	6.72
Total Debt	34.21	38.89
Tangible Net worth	109.37	115.94
EBITDA Margin (%)	11.36	9.99
PAT Margin (%)	4.48	4.58
Overall Gearing Ratio (x)	0.31	0.34

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23 (August 25, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	60.00	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
2.	Term Loan	Long Term	15.99	IVR BBB-/ Stable	IVR BBB-/ Stable		
3.	Bank Guarantee	Long Term/Short Term	40.00	IVR BBB-/ Stable/ IVR A3	IVR BBB-/ Stable/ IVR A3	-	-
4.	Letter of Credit	Short Term	10.00	IVR A3	IVR A3	-	-

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).



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Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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
Cash Credit 1	-	-	-	20.00	IVR BBB-/Stable
Cash Credit 2				20.00	IVR BBB-/Stable
Cash Credit 3				20.00	IVR BBB-/Stable
Term Loan	-	-	March 2029	15.99	IVR BBB-/Stable
Bank Guarantee 1	-	-	-	20.00	IVR BBB-/Stable/IVR A3
Bank Guarantee 2	-	-	-	20.00	IVR BBB-/Stable/IVR A3
Letter of Credit	-	-	-	10.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.



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Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Megawin-oct23.pdf>

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

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.

