



Press Release

Mechfast Engineering Private Limited

February 13, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	40.73 (enhanced from 13.50)	IVR BB+; Stable (IVR Double B plus with stable outlook)	IVR B+; Negative ISSUER NOT COOPERATING (IVR Single B plus with Negative Outlook, ISSUER NOT COOPERATING)	Rating upgraded and removed from ISSUER NOT COOPERATING category	Simple
Short Term Bank Facilities	4.00 (enhanced from 1.50)	IVR A4+ (IVR A four plus)	IVR A4; ISSUER NOT COOPERATING (IVR A Four, ISSUER NOT COOPERATING)	Rating upgraded and removed from ISSUER NOT COOPERATING category	Simple
Total	44.73 (Rupees forty-four crore and seventy-three lakh only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has removed the ratings assigned to the bank facilities of Mechfast Engineering Private Limited (MEPL) from Issuer Not Cooperating category based on adequate information received from the entity to review its ratings.

The upgrade in the ratings is driven by its experienced promoters, partly integrated operations, satisfactory capital structure and comfortable working capital management. However, these rating strengths are partially offset by moderation in business performance marked by thin profitability, highly commoditised and fragmented nature of secondary steel industry making the margins susceptible to volatility in raw material prices, moderate debt protection metrics and exposure to cyclical in the steel industry.

The stable outlook reflects expected benefit from extensive experience of its promoters in steel industry and growing demand of iron and steel products in domestic market.

Key Rating Sensitivities:



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Upward Factors

- Growth in revenue with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure with improvement in overall gearing ratio and/or improvement in debt protection metrics on a sustained basis

Downward Factors

- Decline in revenue and profitability leading to deterioration in gross cash accruals and debt protection metrics on a sustained basis
- Moderation in the capital structure with moderation in overall gearing to over 3x
- Moderation in liquidity position marked by elongation in operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

The company is managed by Mr. Deepak Sonthalia, Mr. Akash Agarwal and Mrs. Sonal Choudhary who have a presence in iron and steel industry for about two decades. The longstanding experience of the promoters has aided the company to establish and maintain healthy relationships with its customers thereby ensuring repeat orders.

- **Partly integrated operations**

The company has a partially integrated facility with the presence of induction furnaces and continuous caster to produce billets using sponge iron, pig iron, scrap etc. These are captively consumed for production of MS Strips. The facility uses a hot charging technology, which transfers billets directly from the caster to the rolling mill, leading to savings in energy costs.

- **Satisfactory capital structure**

The capital structure of the company remained satisfactory marked by satisfactory leverage ratios. The net worth base (ATNW) of the company stood moderate at Rs.29.68 crore as on March 31,2024. The leverage ratios marked by debt equity ratio improved to 0.04x as on March 31,2024 from 0.17x as on March 31, 2023, due to repayment of GECL and Vehicle Term Loan. However, the overall gearing remained moderate at 1.70x (1.66x as on March 31,2023) despite increase in working capital borrowings. Further, total indebtedness marked by TOL/ATNW improved to 2.28x as on March 31,2024 from 3.22x as on March 31,2023.

- **Comfortable working capital management**



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The current ratio stood at 1.20x respectively as on March 31, 2024 (1.20x as on March 31, 2023). The operating cycle of the company stood satisfactory in FY24 [FY refers to the period from April 1 to March 31] at 39 days (27 days in FY23).

Key Rating Weaknesses

- **Moderation in business performance marked by thin profitability**

The scale of operation of the company remained erratic and rangebound over the past three fiscals ended in FY24. The total operating income (TOI) witnessed a y-o-y moderation by ~15% in FY23 on account of decline in volume sales of HR Strip Slitted coupled with fall in export demand despite healthy realisations. However, in FY24 TOI has improved by ~9% on the back of increase in volume sales of MS Strip and MS Billet. The operating margin declined from 5.04% in FY22 to 2.12% in FY23 due to decline in export orders fetching higher operating margin as well as effect of volatile raw material prices and intense competition. The operating margin has moderated further to 1.57% in FY24. The PAT margin though improved from 0.04% in FY23 also remained thin at 0.36% in FY24. Infomerics expects improvement in the business performance of the company in the near term on the back of increased demand of iron and steel. Till December 2024, the company has achieved a revenue of ~Rs.286 crore.

- **Highly commoditised and fragmented nature of secondary steel industry; margins susceptible to volatility in raw material prices**

The company operates in a highly commoditised industry with raw material and power cost accounting for ~92.88-95.08% of the revenues. The secondary steel industry is intensely competitive owing to low product differentiation and low entry barriers. Intense competition in the industry limits pricing flexibility, which restricts scope for an improvement in profitability. The company's profit margins also remain susceptible to volatility in major raw material prices such as MS Billet.

- **Moderate debt protection metrics**

The debt protection metrics of the company remained moderate over the past three fiscal years. Due to dip in EBITDA and increase in interest cost attributable to increase in working capital borrowings, interest coverage ratio declined to 0.84x in FY24 (1.21x in FY23). The management availed an unsecured loans to meet the deficiencies. Moreover, Total debt to EBITDA and Total debt to GCA also remained high at 9.03x and 16.91 years respectively as on March 31, 2024 (6.40x and 26.48 years respectively as on March 31, 2023).

- **Exposure to cyclicity in the steel industry**



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The domestic steel industry is cyclical in nature and is vulnerable to any adverse change in the demand-supply dynamics in the end-user industries which is likely to impact the cash flows of the steel players, including MEPL.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

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

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its expected adequate gross cash accruals in the range of ~Rs.7.02 to ~Rs.13.72 crore as against its debt repayment obligations in the range of ~Rs.0.29 to ~Rs.0.68 crore during FY25-FY27. In FY24, the company has generated gross cash accruals of Rs. 2.99 crore. However, the average fund-based utilization of the company remained high at ~93.32% during the past 12 months ended in November 2024 indicating limited liquidity cushion for the company.

About the Company

Mechfast Engineering Private Limited was incorporated in 2011 by one Sonthalia family of Kolkata. The company remained dormant till 2018 and commenced its commercial operation in March 2018. MEPL is engaged in manufacturing of iron and steel products like M.S. Stripes, M.S Angles, M.S. Channel, M.S. Joist, M.S. Bar, M.S. Patti with an installed capacity of 30,000 MTPA (Single Shift). The manufacturing facility of the company is located in Jamuria Industrial Area, West Bengal.

Financials (Standalone):

For the year ended / As on*	(Rs. Crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	327.15	357.13
EBITDA	6.94	5.59
PAT	0.13	1.32
Total Debt	44.38	50.51
Tangible Net worth	27.47	30.53
Adjusted Tangible Net worth	26.77	29.68



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For the year ended / As on*	31-03-2023	31-03-2024
	Audited	Audited
EBITDA Margin (%)	2.12	1.57
PAT Margin (%)	0.04	0.36
Overall Gearing Ratio	1.66	1.70
Interest Coverage (x)	1.21	0.84

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The ratings of Mechfast Engineering Private Limited continue to remain under Issuer Not Cooperating category by CARE Ratings as per Press Release dated October 17, 2024, due to unavailability of information.

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Nov 28, 2024	Sep 29, 2023	Aug 12, 2022
1.	GECL Extension	Long Term	0.56	IVR BB+; Stable	IVR B+; Negative; ISSUER NOT COOPERATING*	IVR B+; Negative; ISSUER NOT COOPERATING*	IVR BB-; Negative; ISSUER NOT COOPERATING*
2.	Vehicle Loan	Long Term	0.05	IVR BB+; Stable	-	-	-
3.	Vehicle Loan	Long Term	0.12	IVR BB+; Stable	-	-	-
4.	Cash Credit	Long Term	40.00	IVR BB+; Stable	IVR B+; Negative; ISSUER NOT COOPERATING*	IVR B+; Negative; ISSUER NOT COOPERATING*	IVR BB-; Negative; ISSUER NOT COOPERATING*
5.	Bank Guarantee	Short Term	2.00	IVR A4+	IVR A4, ISSUER NOT COOPERATING*	IVR A4, ISSUER NOT COOPERATING*	IVR A4, ISSUER NOT COOPERATING*
6.	Forward Contract Limit	Short Term	2.00	IVR A4+	-	-	-

*Issuer did not cooperate; based on best available information



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About Infomerics:

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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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook
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					(Rs. Crore)	
GECL Extension	-	-	-	Dec'26	0.56	IVR BB+; Stable
Vehicle Loan	-	-	-	Mar'26	0.05	IVR BB+; Stable
Vehicle Loan	-	-	-	Mar'27	0.12	IVR BB+; Stable
Cash Credit	-	-	-	-	40.00	IVR BB+; Stable
Bank Guarantee	-	-	-	-	2.00	IVR A4+
Forward Contract Limit	-	-	-	-	2.00	IVR A4+

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-mechfast-feb25.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.