



Rating Rationale

Megatherm Induction Private Limited

11 Sep 2020

Brickwork Ratings assigns the ratings of BWR BBB-/Stable and BWR A3 for the Bank Facilities of Rs.62.78 Cr of Megatherm Induction Private Limited ('MIPL' or 'the company')

Particulars

Facility	Amount (Rs. Cr)	Tenure	Rating *
	Present #		Present (Sep 2020)
Fund Based	30.78	Long Term	BWR BBB-/Stable Assigned
Fund Based	7.00	Short Term	BWR A3 Assigned
Non Fund Based	25.00	Short Term	BWR A3 Assigned
Total	62.78	INR Sixty Two Crore and Seventy Eight Lakh Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure I shows the detailed facilities

RATING ACTION/OUTLOOK

Brickwork Rating assigns the ratings of BWR BBB-/Stable and BWR A3 to the bank facilities of MIPL.

The ratings draw strength from long & established track record of the Megatherm Group, highly experienced promoter with over 4 decades of experience in the engineering industry, customer, supplier & geographical diversification coupled with locational advantage, moderate financial risk profile coupled with healthy order book position, and healthy profit margins.

The ratings, however, are constrained by susceptibility of profit margins to fluctuations in raw material prices, working capital intensive nature of operations, foreign exchange fluctuation risk, and presence in competitive industry coupled with cyclicity associated to end-user industries.

11 Sep 2020



KEY RATING DRIVERS

Credit Strengths:

- **Long & established track record of the Megatherm Group**

MIPL is a part of the Megatherm Group, whose flagship company viz. Megatherm Electronics Private Limited (MEPL) was incorporated in June 1989 and was engaged in the similar line of business as that of MIPL, and was operational till 2006, after which its business was transferred to EMT Megatherm Private Limited (EMT, erstwhile Engel Machines & Tools Limited) which was taken over from the Government of West Bengal in 2005 by Megatherm Electronics Private Limited by acquiring a 74% stake in it. Currently, EMT is engaged in manufacturing low-to-medium capacity induction furnaces coupled with transformers, whereas MEPL is engaged has been a holding company with no significant operations in it.

- **Highly experienced promoter with over 4 decades of experience in the engineering industry**

MIPL is promoted by Mr. Shesadri Chanda, who looks after the overall operations of the company along with his son Mr. Satadri Chanda. Mr. Shesadri Chanda possesses a total experience of over 42 years in the engineering industry. Prior to the establishment of the Megatherm Group, he was associated with Tata Group and GEC. On the other hand, Mr. Satadri Chanda possesses a total experience of over 5 years in this industry, including 1 years with KPMG as consultant. Hence, the majority of the experience has been gained by the promoters in the due course of their association with the Megatherm Group.

- **Customer, supplier & geographical diversification**

MIPL is based out of Kharagpur in West Bengal, which is one of the manufacturing hubs for all the metalworking companies, with advantages like vicinity of customers & suppliers, low cost labour, low transportation costs, etc. Moreover, the operations of the company are diversified across 25 states in India as well as exported, thereby implying a significant geographical diversification. The customer & supplier profile of the company is diversified with the top 5 customers comprising 38% of the net sales, whereas the top 5 suppliers comprising 33% of the total purchases in FY20 (prov.).

- **Moderate financial risk profile coupled with healthy order book position**

The total operating income stood modest and increased from Rs.108.33 crore in FY19 to Rs.131.63 crore in FY20 (prov.) owing to addition of new customers & geographies, expansion of capacities, prevailing demand for induction melting & heating equipment, etc. The overall gearing stood moderate and improved from 1.35 times as on March 31, 2019 to 1.26 times as on March 31, 2020 (prov.) owing to increase in the tangible net-worth base on the back of accretion of profits. However, considering the unsecured loans worth Rs.11.20 crore as quasi equity, the overall gearing stood comfortable at 0.69 times as on March 31, 2020 (prov.). Moreover, the ISCR and DSCR stood comfortable at 2.92 times and 1.51 times respectively in FY20 (prov.) (vis-à-vis 2.53 times and 1.60 times respectively in FY19). The company possesses a healthy order book position worth Rs.136.51 crore as on August 31, 2020, comprising the domestic orders worth Rs.65 crore and export orders worth Rs.71.51 crore, whereas the said order book is expected to be completely executed by FY22.



- **Healthy profit margins**

The operating profit margin stood healthy and improved significantly from 11.40% in FY18 to 11.60% and 12.46% in FY19 and FY20 (prov.) respectively owing to various factors viz. fluctuating raw material prices, foreign exchange rates, competition, complexity of orders, identification of different vendors, improvement in quality & design, brand recognition, etc. Given this, the net profit margin also stood healthy at 4.86% in FY20 (prov.) (vis-à-vis 4.25% and 3.73% in FY18 and FY19 respectively).

Credit Weaknesses:

- **Susceptibility of profit margins to fluctuations in raw materials prices**

The profit margins of MIPL are susceptible to fluctuations in raw material prices viz. steel & copper, whose rates are highly volatile in nature, given the fluctuations in the demand & supply of the same in the market. Moreover, the realizations are also fluctuating in nature owing to the fluctuating demand & supply in the steel & metalworking market.

- **Working capital intensive nature of operations**

The operations of MIPL are working capital intensive in nature with a majority of funds of over 100-150 days blocked in inventory and a small portion of over 25-50 days in debtors. The conversion cycle stood elongated at 90 days in FY20 (prov.) (vis-à-vis 74 days in FY19), whereas the same elongated marginally in FY20 (prov.) over FY19 owing to elongation in the inventory holding on the back of higher WIP inventory as on March 31, 2020 (prov.). The average WC utilization in the last 6 months ended July 2020 stood at 76.89%.

- **Foreign exchange fluctuation risk**

The products manufactured by the company are also exported to various countries viz. Bangladesh, Bhutan, UAE, Hong Kong, Indonesia, Kenya and South Africa (exports comprised 7.41% of the net sales in FY19), whereas the other raw materials viz. capacitors, semi-conductors and some portion of CRNGO steel are imported from China, Germany, USA and UK (imports comprised 24.67% of the total material consumption in FY19), thereby exposing it to foreign exchange fluctuation risk. However, it is not undertaking hedging activities, since the exports provide a natural hedge to it. During FY19, the company posted a foreign exchange loss of Rs.0.44 crore (vis-à-vis a gain worth Rs.0.03 crore in FY19).

- **Presence in competitive industry coupled with cyclicity associated to end-user industries**

MIPL operates in a competitive steel industry, wherein it faces competition from the large-sized and medium-sized players engaged in the manufacturing, commissioning & installation of induction melting & heating equipment. The profit margins may be pressured by the prevailing competition. Moreover, the steel & metalworking industry is highly cyclical in nature with the prospects linked to the performance of the economy and the prevailing demand in the sectors viz. automobiles, real estate, construction, infrastructure, etc.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has essentially relied upon the audited financials of the company up to FY19, provisional CA-certified financials up to FY20, projections up to FY23, publicly available information and information/clarifications provided by the management.

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the company to significantly increase its scale of operations by strengthening its order book position while maintaining the profit margins, maintain its capital structure while improving its debt coverage indicators and efficiently manage its working capital would be the key rating sensitivities.

Positive: Significant improvement in the scale of operations amid the global pandemic situation by strengthening the order book position coupled with improvement in the debt coverage indicators

Negative: Inability to achieve the envisaged improvement in the scale of operations coupled with deterioration in the profit margins or liquidity profile

LIQUIDITY POSITION: Adequate

The current ratio stood moderate at 1.38 times as on March 31, 2020 (prov.) (vis-à-vis 1.33 times as on March 31, 2019), whereas the conversion cycle stood elongated at 90 days in FY20 (prov.) (vis-à-vis 74 days in FY19), whereas the same elongated marginally in FY20 (prov.) over FY19 owing to elongation in the inventory holding on the back of higher WIP inventory as on March 31, 2020 (prov.). The average WC utilization in the last 6 months ended July 2020 stood at 76.89%.

COMPANY PROFILE

Incorporated in October 2010 by Mr. Shesadri Chanda, Megatherm Induction Private Limited (MIPL) commenced the commercial operations in October 2017, and is engaged in manufacturing, installation & commissioning of various induction melting & heating equipment of medium-to-high frequency, which find application in various metalworking sectors. The products manufactured by the company comprise induction melting & holding furnace, induction billet heaters, induction hardening & heat-treating equipment, ladle refining furnace, electric arc furnace, static frequency converter, etc., whereas the allied equipment viz. transformers, gears, cooling towers, pumps, etc. are procured from the domestic players of the same. The products manufactured by the company are sold directly to the players across India, engaged in the metalworking sectors viz. steel plants, other metalworking sectors, foundries, forgings, etc., whereas the same are also exported to various countries viz. Bangladesh, Bhutan, UAE, Hong Kong, Indonesia, Kenya and South Africa (exports comprised 7.41% of the net sales in FY19). On the other hand, the primary raw materials viz. copper, cold-rolled non-grain-oriented steel (CRNGO steel), structures, insulators, etc. are procured from the domestic suppliers of the same across Gujarat, Rajasthan and West Bengal, whereas the other raw materials viz. capacitors, semi-conductors and some portion of CRNGO steel are imported from China, Germany, USA and UK (imports comprised 24.67% of the total material consumption in FY19). The manufacturing facility of the company is located at Jakpur in Kharagpur, West Bengal,



whereas the corporate office is located at Salt Lake City in Kolkata, West Bengal.

KEY FINANCIAL INDICATORS

Key Parameters	31.3.2018 Audited	31.3.2019 Audited	31.3.2020 Provisional (CA-certified)
Total Operating Income (Rs. Cr)	38.41	108.33	131.63
EBITDA (Rs. Cr)	4.38	12.56	16.40
PAT (Rs. Cr)	1.63	4.04	6.40
Tangible Networth (Rs. Cr)	22.88	26.92	33.32
Tangible Networth (Adjusted) (Rs. Cr)	23.41	30.84	38.93
Total Debt:TNW (Times)	1.36	1.35	1.26
Total Debt:TNW (Adjusted) (Times)	1.31	1.05	0.93
Current Ratio (Times)	1.00	1.33	1.38

KEY COVENANTS OF INSTRUMENTS/FACILITIES TO BE RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY:

ISSUER NOT COOPERATING by CRISIL vide its press release dated December 20, 2019



Rating History for the last three years: (Including withdrawal and Suspended)

Sl. No.	Facility	Current Rating (Sep 2020)			Rating History		
		Type	Amount (Rs. Cr)	Rating	-	-	-
1	Fund based Term Loan	Long Term	15.78*	BWR BBB- /Stable Assigned	-	-	-
	Cash Credit		15.00				
2	Fund Based Export Packing Credit	Short Term	7.00	BWR A3 Assigned	-	-	-
3	Non Fund Based Letter of Credit	Short Term	18.00	BWR A3 Assigned	-	-	-
	Bank Guarantee		7.00				
	Total		62.78	INR Sixty Two Crore and Seventy Eight Lakh Only			

*Outstanding as on March 31, 2020.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)



Analytical Contacts	Investor and Media Relations
<p>Sonali Bhatia Analyst - Ratings Board: +91 22 2831 1426 Ext: - sonali.b@brickworkratings.com</p> <p>Noman Agashiwala [Associate Director – Ratings] Board: +91 22 2831 1426 noman.a@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice-President - Corporate Communications +9184339 94686 liena.t@brickworkratings.com</p>

Annexure I Details of Rated Bank Facilities

Bank	Name of Facility	Type of Facility	Rated Amount (Rs.in Cr.)
Allahabad Bank	Term Loan	Fund Based - Long Term	15.78*
	Cash Credit	Fund Based - Long Term	15.00
	Export Packing Credit	Fund Based - Short Term	7.00
	Letter of Credit	Non Fund Based – Short Term	18.00
	Bank Guarantee	Non Fund Based – Short Term	7.00
		Total	62.78

*Outstanding as on March 31, 2020.

INR Sixty Two Crore and Seventy Eight Lakh Only

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