Metamorphosis Engitech India Private Limited (Revised)

June 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term/Short Term Bank Facilities	36.00	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	74.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**110.00 (Rs. One hundred and ten Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Metamorphosis Engitech India Private Limited (MEIPL) factors in the below average financial risk profile characterised by moderate scale of operations coupled with low operating profitability leading to cash losses incurred, albeit improved over the past three years and weak debt coverage indicators along with stretched liquidity position. Furthermore, the ratings are tempered on account of working capital intensive nature of business, supplier concentration along with exposure to risks associated with the cyclicality in the end-user industries, profit margins susceptible to fluctuations in raw material prices and having presence in the competitive industry.

However, the ratings derive strength from the experienced and resourceful promoter demonstrated by consistently infusing funds to support the business, moderate capital structure and well established relationships with customers and suppliers.

Rating Sensitivities

Positive Factors

- Growth in scale of operations to around Rs 350 crore with PBILDT margin of around 7% leading to higher cash accruals.
- Improvement in ROCE above 7% on sustained basis.
- Sharp and sustained improvement in operating cycle and debt coverage indicators

Negative Factors

- Significant underachievement in terms of revenues and operating profitability margins leading to underachievement in cash accruals as compared to envisaged levels
- Withdrawal of support extended by promoters in form of unsecured loan resulting into significant deterioration in gearing levels
- Stretch in working capital cycle or large debt funded capex resulting in higher than expected debt and gearing levels

Detailed description of key rating drivers

Key Rating weakness

Moderate scale of operations with cash loss albeit improved over the past three years

MEIPL has commenced its trial production in late November 2018 and in January 2019 Metaengitech finally started the commercial production of precision tubes; hence FY20 was first full year of operations. MEIPL has reported total operating income (TOI) of Rs. 207.78 crores in FY22 as compared to Rs. 96.78 crores in FY21 and Rs.65.38 crore in FY20. Thus, the company has been able to demonstrate improvement in scale of revenues over the past three years.

MEIPL has reported cash loss of Rs. 2.16 crores in FY22 as compared to cash loss of Rs. 12.72 crores in FY21 and Rs. 20.33 crore in FY20 respectively due to losses at operating levels till FY21 which turned positive in FY22. Nevertheless, it is to be noted that the company was incurring losses at operating levels till FY21 and it has reported profits at the operating level in FY22. This is owing to the improvement in the capacity utilisation leading to increased production and better utilisation of resources thereby helping the company to absorb the fixed overheads and improve its performance over the past three years. Thus, over the past three years, though the company has been incurring cash losses, however it has been coming down gradually and the business operations are supported by the regular fund infusion by the promoters.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Weaker debt coverage indicators
The company's debt coverage indicators remained weak as evident from the cash accruals remaining negative. However, the company's cash accruals generation have been improving over the past three years and the same is envisaged to improve further with the increase in capacity utilization leading to better absorption of overheads and increased revenues as envisaged. MEIPL's total debt to gross cash accruals remained negative over the past three years. As a result, the liquidity indicators also turned weak and the company has to rely more on bank borrowings and unsecured loan from the promoters to support the operations of the company as well as meet its debt loan repayments. Besides, interest coverage ratio also remained below unity levels owing to lower operating profitability. *Going forward, the company's ability to generate adequate and positive cash flows to support the operations of the company is critical from a credit rating perspective.*

Working capital intensive nature of business:
The company is into manufacturing of electric resistance wielded (ERW) tubes, cold drawn electric wielded tubes (CEW) along with value added tube components having application in automobile and engineering which is inherently working capital intensive in nature as the company procures raw material such as coils or sheets etc. which is a commodity based item and procured from Iron and Steel manufacturers such as Tata Steel , JSW Steel etc. or intermediaries at mostly on cash basis or relatively on smaller credit period basis through LCs. Furthermore, the company also needs to maintain the inventory in order to use the same for its scheduled production of finished products, thereby making it capital intensive in nature. The working capital cycle remained at around 92 days as compared to 105 days in FY21 and 86 days in FY20 respectively. Gross current asset days remained elevated at around 190 days in FY22. The average utilization of the working capital limit remained moderate at around 75% for fund based and around 95% for non-fund based limits.

Supplier concentration risk and susceptibility to fluctuation in raw material price:
As MEIPL is into manufacturing of metal tubes, it procures its raw material upto 52% of its requirements from JSW Steel and around 21% from Tata Steel and remaining from some other players. Thus, MEIPL faces significant supplier concentration risk as it buys from large players with which it has limited bargaining power.

Highly competitive industry:
The steel pipes industry is highly competitive due to presence of various organized and unorganized players and expanding applications of various types of steel pipes. Although, over the years the industry has become more organized with the share of unorganized players reducing, but margins continue to be under pressure due to fragmentation of the industry

Susceptibility of profit margins to volatility in raw material prices
MEIPL main raw materials include HR coil which accounts for nearly majority of its total cost of raw material consumption is procured from the domestic market. The prices of raw materials are market driven owing to which operating margin remains volatile subject to market prices. Besides, the cost of raw materials constitutes around 65% of production cost and thus any fluctuation in prices can affect the profitability margins to large extent.

Key rating strengths
Experienced and resourceful promoters
Mr. Girish Kulkarni (Promoter and Director) received a bachelor's degree in engineering from IIT, Mumbai, India in 1987 and a master's degree in business administration from the IIM, Ahmedabad, India in 1989. Mr. Girish Kulkarni has a total of more than three decades of operating and investment experience in different aspects of capital markets and investments. Besides, Mr. Hemant Agarwal, CEO and Whole Time Director is a Postgraduate in Engineering and Management, with nearly three decades of experience in metal, cement, consumable products, oil and gas industries. The management is assisted by a team of qualified professionals having experience in relevant fields. The promoters have been actively supporting the business with operational as well as financial assistance by way of fund infusion by way of unsecured loans at regular intervals over the past few years. The promoters have infused around Rs.161.69 crore by way of equity, compulsory convertible debentures (CCDs) and unsecured loan/ICDs.

Well established relationship with customers and suppliers
The company has established strong relationships with customers as well as suppliers. Around 42% of the total revenue was procured from top 5 companies in FY21 as compared to around 32% in FY21 from these companies. This has helped the company to build a basket of products to offer to its customers as well as get repeated orders from its customers as well as regular supplies from the suppliers.

Moderate capital structure
The capital structure is supported by large networth base of Rs 80.26 crore and moderate gearing of 0.97 times as on March 31, 2022. The healthy networth has helped control leverage despite the high working capital intensity. As on March 31, 2022, total debt level remained at Rs. 78.21 (PY-Rs.42.35 crores) which mainly pertains working capital borrowings of Rs. 51.45 crores (PY-Rs. 25.70) and unsecured loans from directors and relatives (incl intercorporate deposit) of Rs. 26.76 crore (PY- Rs. 11.76 crores). The promoters are regularly infusing unsecured loan to meet its debt repayment obligation as well as working capital requirement. MEIPL had raised capital by issue of equity shares aggregating to Rs. 15.48 crores in FY22 (PY-10.80 crores). The promoters has infused additional unsecured loan of Rs. 15 crores in FY22 (PY-Rs. 9.30 crores) to meet interest payment, principal debt repayment obligations and working capital requirements. With this, the promoters have infused around Rs.161.69 crore by way of equity, compulsory convertible debentures (CCDs) and unsecured loan/ICDs in the business over the past few years.

Liquidity- Stretched
Liquidity of MEIPL remained stretched marked by low cash and bank balance of Rs.0.23 crore in FY22. MEIPL's average maximum utilisation of the fund-based limits was 75% and non-fund-based limits was 95% during the last 12 months ended April 2022. The company has reported cash loss of Rs. 2.16 crores (PY-Rs.12.72 crores). However, the liquidity though seems to be stretched, however, promoters have infused by way of equity shares of Rs. 15.48 crores in FY22 (PY-10.80 crores) and by unsecured loans (incl intercorporate deposit) to the tune of Rs. 15 crores (PY-Rs. 9.30 crore) in order to meet business requirements. With this, the promoters have infused around Rs.161.69 crore by way of equity, compulsory convertible debentures (CCDs) and unsecured loan/ICDs in the business over the past few years.

Analytical approach: Standalone.

Applicable criteria:
CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non-Financial Sector entities
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

About the Company
Metamorphosis Engitech India Private Limited ("Metaengitech") is a multiproduct engineering company specialized in manufacturing of precision tubes and tubular components. The company caters to various sectors such as automobile, general engineering, energy, construction and mining, etc. It was incorporated in March 2018 under the Companies Act, 2013 with the intention of participating in the e-auction held by Liquidator of Innoventive Industries Ltd. (IIL) to buy some of the assets of IIL under liquidation as per the provisions of Insolvency and Bankruptcy Code (IBC), 2016 and the Insolvency and Bankruptcy Board of India (Liquidation Process) Regulations, 2016 ("Liquidation Process Regulations").
Metaengitech trial production was started in late November 2018 and in January 2019 finally started the commercial production of precision tubes. As mentioned, Metaengitech bought two manufacturing facilities of Tube Division, Unit I at Sanaswadi, on Pune Nagar Road which is having a manufacturing capacity of 6,000 MT / Month of Electric Resistance Welded (ERW) tubes and Unit II Pimple Jagtap, on Pune Nagar Road which is having a manufacturing capacity of 2,500 MT / Month of Cold Drawn Electric Welded (CEW) tubes.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
Total operating income	65.38	96.78	207.78
PBILDT	-19.17	-10.29	7.67
PAT	-19.87	-16.24	-10.61
Overall gearing (times)	0.37	1.03	0.97
Interest coverage (times)	-57.44	-4.36	0.78

A: Audited, Pro.- Provisional, UA- Unaudited, NA- Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based – LT/ST-Cash Credit		-	-	-	36.00	CARE BB; Stable / CARE A4
Non-Fund-based – ST-Letter of credit		-	-	-	74.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-LT/ST	LT/ST*	36.00	CARE BB; Stable / CARE A4				
2	Non-fund-based – ST- Letter of credit**	ST	74.00	CARE A4				

** Long Term / Short Term, ** Letter of credit (incl bill discounting)*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Penal Interest	In case of any one or more of borrowal accounts turn SMA-1, SMA-2 or NPA, penal interest will be levied at the end of each month on the outstanding balance of all borrowal accounts during the period of such classification, at the following rates: • At the rate of 1% p.a. during the of classification as SMA-1 • At the rate of 1% p.a. during the of classification as SMA-2
II. Drawing power	The withdrawal in the cash credit account shall be strictly based on drawing power arrived. DP shall be maintained on the basis of paid stock with a minimum margin of 25% on stock and receivables not older than 90 days with 40% margin
B. Non-financial covenants	
I. Additional capital	The promoters shall bring in additional capital to make good the cash losses incurred/to be incurred by the company and the working capital facilities sanctioned by our bank shall not go for funding the cash losses. An undertaking to this effect shall be obtained from the company.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	.Name of instrument	Complexity level
1	Fund-based-LT/ST	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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