Mectech Process Engineers Private Limited

July 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	29.00	CARE BB+; Stable / CARE A4+	Assigned
Short Term Bank Facilities	12.00	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Mectech Process Engineers Private Limited (MPEPL) are constrained on account of average financial risk profile, moderate & concentrated order book position and working capital intensive nature of operations. The ratings also take cognizance of susceptibility to volatility in raw material prices and presence in competitive & cyclical nature of industry. However, the ratings draw comfort from growing scale of operations, improving profitability margins, experienced promoters and established track record of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income above Rs. 200 crores with increase in PBILDT margin above 9.00% on sustained basis.
- Improvement in capital structure of the company as marked by overall gearing below 1.00x.

Negative factors

- Decline in total operating income below Rs. 120 crores with moderation in PBILDT margin below 5.00% on sustained basis.
- Increase in Gross current asset days above 180 days on sustained basis leading to deterioration in the liquidity position of the company.
- Deterioration in capital structure of the company as marked by overall gearing above 1.75x on sustain basis on account of any debt funded capex.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the company is likely to maintain its operational & financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key weaknesses

Average financial risk profile:

The capital structure of the company remains leveraged as marked by overall gearing ratio of 1.32x as on March 31, 2024 (PY: 1.18x). Although, out of the total debt of Rs. 46.07 crores; majority portion amounting to Rs. 40.79 crores pertain to mobilization advances which are non-interest bearing in nature.

Further, the debt coverage indicators of the company have remained moderate, reflected by total debt to GCA & Total debt to PBILDT ratio of 6.22x and 4.70x respectively as on March 31, 2024, as against 7.11x and 6.47x, respectively as on March 31, 2023. Although, interest coverage ratio of the company remains comfortable & stood at 8.85x during FY24 (refers to period from April 01 to March 31) on account of increase in profitability & non-interest bearing mobilization advances.

Company's ability to improve the financial risk profile led by improvement in net-worth base through accretion of annual profits or through additional fund infusion would remain key monitorable.

Moderate & concentrated order book:

The order book of the company stands moderate at Rs. 232.50 crores as on July 01, 2024, which is 1.68x of Total operating income (TOI) of FY24 providing medium term revenue visibility. Despite comprising a total of 27 orders, the order book remains concentrated, with the top 5 orders constitute ~57% of the total order value. Although, the order book includes orders from big

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

players such as Adani Wilmar Limited, BCL Industries Limited, Emami Agrotech, etc. which mitigates the concentration risk to a great extent.

Working Capital intensive nature of operations:
The company operates in the capital goods intensive manufacturing sector, resulting in a relatively higher inventory period. However, inventory days have improved to 61 days in FY24 from 69 days in FY23. Further, The company generally receives phase-wise advance payments based on Performa invoice except for some big players to whom the company provides credit period of around 30-40 days. While the company receives a credit period of around 20-30 days from the creditors. The operating cycle of the company improved to 77 days in FY24 as against 85 days in FY23 on account of better collection & inventory period. Given the anticipated growth in scale of operations, effective & efficient management of operating cycle would remain a key factor.

Susceptibility to volatility in raw material prices:
The major raw material for MPEPL is iron & steel, the prices of which are linked to market and determined on a periodic basis. Thus, exposing the company to the volatility in the prices of raw materials and inability to completely pass on the impact to its customers which has a bearing on its profitability margins in case of any sharp movement in the prices. Also, the orders do not generally have any price escalation clause for volatility in raw-material prices. The company considers the possibility for price fluctuation while entering into the agreement only. Going forward, the company's ability to effectively manage the price volatilities would remain key factor to monitor for the company as well for the purpose of ratings.

Presence in competitive and cyclical nature of industry:
The company is engaged in the execution of turnkey projects for Oil & Fats industry, Biodiesel, and oleo chemical industry, which is cyclical in nature with high dependence on the capex cycles of customers and timely execution of the existing orders.

Key strengths:

Moderate albeit growing scale of operations and profitability margins:
The company's Total Operating Income (TOI) has demonstrated a compound annual growth rate (CAGR) of 13.59% over the past five fiscal years despite experiencing fluctuating trends. TOI of the company stood at Rs. 138.51 crores during FY24. Further, The company has achieved the sales of Rs. 44.26 crores during Q1FY25 (refers to period from April 01 to June 30).
The profitability margins of the company have improved over the years. The company has achieved PBILDT (Profit Before Interest, Lease, Depreciation and Tax) and PAT (Profit After Tax) margins of 7.08% and 3.51% respectively during FY24 (compared to 4.37% and 2.71% in the previous year (PY)). This improvement in profitability was achieved through controlled operating and administrative expenses relative to the growth in scale of operations.
Company's ability to improve the operating risk profile led by sustained improvement in scale of operations & profitability would remain key monitorable.

Experienced promoters with established track record of operations: The company is currently being managed by Mr. Ishwar Sahai (Promoter & Chairman), who is a chemical engineer & has an experience of more than four decades along with his son Mr. Ankoor Sahaii who had completed his B. Com (Hons.) from Delhi University. The company has executed more than 550 projects across the globe in more than 25 countries over the last four decades. Additionally, the company possesses certain unique technologies and patents that provide a competitive advantage in terms of acquiring orders and achieving cost savings compared to other domestic & global players.

Liquidity: Adequate
The liquidity position of the company remains adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company is expected to generate GCA of around Rs. 10.53 crore for FY25 as against repayment obligations of Rs. 2.28 crore. Further, the company does not utilize their fund-based working capital limits & depends upon mobilisation advance received from the customers which are interest free in nature. The company's liquidity profile is also supported by cash and bank balance of Rs. 1.54 crores as on March 31, 2024, excluding the lien marked FDRs of Rs. 17.74 crores.
Further, the company has no major debt funded capex plans over the near to medium term.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Incorporated in 1983, Mectech Process Engineers Private Limited (MPEPL) manufactures, supplies & installs equipment and machinery for the Oil & Fats industry, biodiesel and oleo chemical industry, catering to both domestic and international markets. The company is ASME & ISO certified. The company have two manufacturing facilities, one each in Gurgaon Sonipat with the capacity to manufacture up to 1000TPD refinery plant.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	119.30	138.51	44.26
PBILDT	5.21	9.80	NA
PAT	3.23	6.59	NA
Overall gearing (times)	1.18	1.32	NA
Interest coverage (times)	4.52	8.85	NA

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	29.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantee	-	-	-	-	12.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022

1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	29.00	CARE BB+; Stable / CARE A4+				
2	Non-fund-based - ST-Bank Guarantee	ST	12.00	CARE A4+				

LT/ST: Long term/Short term; ST: Short term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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