

Megatherm Induction Limited

Ratings upgraded to 'CRISIL BBB / Stable / CRISIL A3+ '

Rating Action

Total Bank Loan Facilities Rated	Rs.85 Crore
Long Term Rating	CRISIL BBB/Stable (Upgraded from 'CRISIL BBB- / Stable')
Short Term Rating	CRISIL A3+ (Upgraded from 'CRISIL A3 ')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings to 'CRISIL BBB/Stable/CRISIL A3+' from 'CRISIL BBB-/Stable/CRISIL A3' on the bank facilities of **Megatherm Induction Ltd (MIL)**.

The upgrade reflects strengthened business risk profile of the company with revenue of Rs 266 crore in fiscal 2023, which surpassed CRISIL Ratings' expectation, exhibiting 42% growth as against the previous year owing to healthy order flow and steady demand scenario on the back of capacity additions by steel and casting manufacturing plants driven by infrastructural push. MIL's long track record of operations in the manufacturing of heating, melting and welding induction furnaces along with diversified product offerings, its established marketing network, diversified clientele base and strong order book underpin its ratings. The company has continued its growth momentum in fiscal 2024 with healthy order book execution with revenue of Rs 147.32 crore upto September, 2023. MIL is expected to improve its revenue profile over the medium term backed by a healthy outstanding order book of around 346 crore as of October, 2023 which provides healthy revenue visibility. Operating efficiency remains supported by healthy order book execution, better operational efficiency through backward integration benefits flowing in from recent capacity enhancements and modernisation activities and better ability to pass on raw material price volatility to consumers with margins expected to be around 10-11% over the medium term. MIL has a healthy Return on Capital Employed (ROCE) expected around 20-25% over the medium term.

The ratings continue to reflect the extensive experience of the promoters in the capital goods industry, the healthy revenue visibility of the company and its comfortable financial risk profile. These strengths are partially offset by moderately large working capital requirement and susceptibility to volatility in raw-material prices and foreign exchange rate fluctuations apart from MIL's presence in the cyclical capital goods industry.

Analytical Approach:Not applicable

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoters: The promoters have experience of three decades in the capital goods industry, which has enabled them to develop a keen grasp of local market dynamics and price trends. The promoters calibrate stocking decisions and extend need-based financial support. MIL is an established player in the manufacturing of induction furnace systems in India and it has served installed around 3000+

customers (including outside India), which demonstrates its strong execution capabilities. Backed by extensive support from the management, MIL has been able to clock in a turnover of Rs 266 crore in FY23, exhibiting a 42% growth as against the previous fiscal. Moreover, established relationship of the promoters with its customers has enabled them to build a healthy outstanding order book of around Rs 346 crore as on October, 2023 which supports healthy revenue visibility over the medium term. The extensive experience of the promoters will help MIL grow over the medium term.

Healthy revenue visibility: MIL is one of the leading players in manufacturing and supplying of induction furnaces in India. It has a well established clientel base both in the domestic and export market and has been serving the iron and steel, foundry and automotive casting sector for the past decade which has been contributing significantly to the revenue. MIL's turnover which has grown at a compounded annual growth rate (CAGR) of 26% over a period of last five years ended FY23, grew by a healthy 4% in FY23 on year-on-year (y-o-y) basis. During H1FY24, MIL has reported a revenue of Rs 147.32 crore. MIL's revenue growth was supported by an uptick in the capex cycle by the metal and steel industry despite correction in steel and metal prices. The company also has a healthy order book of Rs 346 crore as on October, 2023 which supports healthy revenue visibility with MIL expecting to close in fiscal 2024 at a turnover of Rs 300 crore.

Comfortable financial risk profile: Financial risk profile is average marked by healthy networth of Rs 58 crore as on September, 2023. Capital structure is also robust marked by moderate reliance on working capital debt yielding gearing and Total Outside Liabilities to Tangible Networth (TOL/TNW) ratio of 0.86 and 2.83 times respectively as on March 31st, 2023. TOL/TNW appears high owing to large customer advances on the back of unexecuted orders. Debt protection metrics also remain comfortable marked by expected interest coverage and NCA/AD at 5-7 times and 0.50-0.80 times respectively going forward. With no new debt funded capex plans and steady accretion to reserves, financial risk profile is expected to improve further going forward.

Weaknesses

Moderately large working capital requirement: The company had gross current assets (GCAs) of 164 days and inventory of 109 days as on March 31, 2023. Inventory primarily consists of work in progress (WIP). The working capital cycle is likely to remain moderately and hence, a key monitorable.

Susceptibility to volatility in raw-material prices and foreign exchange rate fluctuations apart from MIL's presence in the cyclical capital goods industry: MIL is exposed to the risk of cyclicality inherent in the end-use industries such as metals and mining and the capital goods industry. New orders or repeat orders are largely dependent on the economic condition as the new or expansion projects by industries mainly depend on the level of expected economic growth. However, MIL has largely been able to insulate itself from the inherent cyclicality associated with the industry due to its presence in a niche segment and by catering to clients across diverse geographies (within as well as outside India) as well as due to good share of spare parts and service income at around 15-20% of its total sales. The basic raw material for manufacturing furnaces is electricity-conductive materials such as copper and copper rods. Copper prices are linked to the trends in international markets, which makes MIL's profitability susceptible to the volatility in material prices, especially in the backdrop of its largely fixed-priced orders. MIL earns around 20% of its income through exports and hence is exposed to a sharp appreciation of the INR against the USD; though some natural hedge is available as the company also sources around 20-30% of its raw material requirement through imports. Nevertheless, as articulated by the management, the company does not hedge the foreign currency exposure as MIL has natural hedge for part of its foreign currency pay-out. Sustainance of operating margins despite extreme fluctuations in the price of raw materials shall remain a key monitorable.

Liquidity:Adequate

Expected annual cash accrual of Rs 20-27 crore should comfortably cover term debt obligation of Rs 6-8 crore per annum over the medium term and the surplus will support liquidity. Bank limit utilisation of the fund based limits averaged a moderate 30% over the past twelve months through October, 2023. Current ratio is expected to be moderate around 1.20-1.50 times over the medium term. Healthy unencumbered cash and bank balance of Rs 7.94 crore as on September, 2023 with MIL. Need-based funding support from the promoters is expected to continue. Low gearing and moderate networth support financial flexibility.

Outlook Stable

CRISIL Ratings believes MIL will benefit from its promoter’s extensive experience and established relationship with customers

Rating Sensitivity factors

Upward factors

Substantial improvement in scale of operations and stable operating margin, leading to higher cash accrual of more than Rs 30 crore

Steady improvement in working capital management while sustaining the strong financial and liquidity risk profile

Downward factors

Substantial decline in revenue and profitability with net cash accrual to below Rs 10 crore

Any large, debt-funded capital expenditure weakening the capital structure and/or substantial increase in working capital requirement, weakening the liquidity and financial risk profile

About the Company

Incorporated in October 2010 and promoted Mr Shesadri Bhusan Chanda, MIL began operations in fiscal 2018. The company manufactures induction melting furnace and induction heating and heat treatment equipment.

Key Financial Indicators

Particulars	Unit	2023	2022
Operating income	Rs crore	266.30	187.84
Reported profit after tax (PAT)	Rs crore	14.00	1.64
PAT margin	%	5.26	0.87
Adjusted debt / adjusted networth	Times	0.86	1.11
Interest coverage	Times	4.79	1.90

Status of non cooperation with previous CRA: Not applicable

Any other information: Not applicable

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Term loan	NA	NA	March 2028	14.94	CRISIL BBB/Stable
NA	Cash credit	NA	NA	NA	27.00	CRISIL BBB/Stable
NA	Working capital term loan	NA	NA	March 2028	8.06	CRISIL BBB/Stable
NA	Bank guarantee	NA	NA	NA	7	CRISIL A3+
NA	Inland/import letter of credit	NA	NA	NA	28	CRISIL A3+

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BBB/Stable		--	17-10-22	CRISIL BBB-/Stable / CRISIL A3	31-08-21	CRISIL BBB-/Stable / CRISIL A3		--	CRISIL BB+ /Stable (Issuer Not Cooperating)*
			--		--	30-09-22	CRISIL BBB-/Stable / CRISIL A3	24-03-21	CRISIL B /Stable (Issuer Not Cooperating)*		--	--
Non-Fund Based Facilities	ST	35.0	CRISIL A3+		--	17-10-22	CRISIL A3	31-08-21	CRISIL A3		--	CRISIL A4+ (Issuer Not Cooperating)*
			--		--	30-09-22	CRISIL A3	24-03-21	CRISIL A4 (Issuer Not Cooperating)*		--	--

All amounts are in Rs.Cr.

Annexure – Details of Bank Lenders/Facilities

Facility	Amount (Rs. Crore)	Name of Lender	Rating
Bank Guarantee	7	Indian Bank	CRISIL A3+
Cash Credit	27	Indian Bank	CRISIL BBB/Stable
Inland/Import Letter of Credit	28	Indian Bank	CRISIL A3+
Term Loan	5	Indian Bank	CRISIL BBB/Stable
Term Loan	9.94	Indian Bank	CRISIL BBB/Stable
Working Capital Term Loan	8.06	Indian Bank	CRISIL BBB/Stable