Press Release

Metalfab Hightech Private Limited (MHPL)

February 08th, 2021

Sr. No	Facilities	Amount (INR Crore)	Current Ratings	Rating Action
1	Long Term Fund Based Facility– Cash Credit	33.50	IVR BB; Credit Watch with developing Implication (IVR Double B; Credit Watch with Developing Implication)	Reaffirmed; Placed the rating on credit watch with developing implication
2	Long Term Fund Based Facility– Term Loans	17.75 (Increased from 9.92)	IVR BB; Credit Watch with developing Implication (IVR Double B; Credit Watch with Developing Implication)	Reaffirmed; Placed the rating on credit watch with developing implication
3	Short Term Fund Based Facility– Letter of Credit	22.90	IVR A4; Credit Watch with developing Implication (IVR Single A Four; Credit Watch with developing Implication)	Reaffirmed; Placed the rating on credit watch with developing implication
4	Short Term Non-Fund Based Facility– Bank Guarantee	33.10	IVR A4; Credit Watch with developing Implication (IVR Single A Four; Credit Watch with developing Implication)	Reaffirmed; Placed the rating on credit watch with developing implication
	Total	**107.25**		

Details of Facilities are in Annexure 1

Detailed Rationale

Rating on credit watch with developing implication is on account of adverse impact on overall operational & financial performance of the Company leading to tight liquidity position arising mainly due to Covid-19 pandemic. In accordance with the latest RBI framework on Covid-19 asset resolution MHPL applied for a One-Time Restructuring (OTR). The Company filed the OTR application on November 24th, 2020 and the same was invoked by majority {75% by value of total outstanding credit facilities (Fund based as well as non-fund based and not less than 60% of lending institutions by number)} its lenders on December 31st, 2020.

The rating continues to derive strength from experienced promoters with long track record of operations, reputed customers and diversified product base backed by moderate order book size and coherent manufacturing facilities. However, the rating strengths are partially offset by deteriorating financial risk profile and order based business model leading to working capital intensive nature of operations.

Key Rating Sensitivities:

The rating on credit watch with developing implications indicates that the ratings may be affirmed, downgraded or upgraded upon resolution of the OTR. Infomerics will resolve the rating on credit watch with developing implications on the completion of ongoing OTR and after analysing the terms & conditions of the OTR and its impact on MHPL's debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

- ***Experienced promoters with long track record of operations:***

MHPL is a closely held, family run company. The promoters have gained extensive experience of the industry with the company starting its operations since 1996. The senior management is led by Mr. Pramod Jain (Chairman), with more than 4 decades of relevant experience in the heavy engineering sector. He looks after the commercial aspects including banking and taxation associated with the company, while Mr. Sandeep Jain (Managing Director) has an overall experience of more than 3 decades and is responsible for the daily operations at Unit I. Likewise, Mr. Sahil Jain (Director) has industry experience of around 6 years and oversees the daily operations of Unit 2.

- ***Reputed customers and diversified product base backed by moderate order book size:***

MHPL has presence in heavy fabrication, catering to core sectors like Power, Sugar, Cement, Infrastructure and Railways. Over the years, the Company has established relationship with reputed clientele like L&T MHPS Boilers Pvt Ltd, Dilip Buildcon Limited, Doosan Power Systems Pvt Ltd, TATA Projects Limited, Viraj Infrastructure Pvt Ltd, etc. With the recent realigning of their product profile, the Company presently has a diversified

portfolio to offer. Experienced management and track record of operations of the Company has benefited them in maintaining healthy relationships across various industries.
The outstanding order as on December 2020 stood at INR99.01 Crore, providing a certain revenue visibility for the short-medium term.

- ***Coherent Manufacturing Facilities:***

MHPL's in-house manufacturing facilities and offices situated in Nagpur are spread over 85,000 sq.mts. (approx 22 acres) with a total covered area of 26,500 sq.mts. In total, the company has 18 fabrication bays. Also, the company has 6 Blasting booths and 11 Painting booths, with maximum handling capacity inside the bay and in the open area is 90MT.

Key Rating Weaknesses

- ***Deteriorating financial risk profile:***

The Company's operating income has seen a constant decline over the last four fiscals ended FY20 to INR92.21 Crore in FY20 from INR140.37 Crore in FY17. Till FY19 the decline has been largely due to the realignment in their product offerings due to change in their business model which was led by changes in market/industry factors in the power sector. Decline in FY20 was mainly due to Covid-19 led disruptions and subsequent nationwide lockdown. Furthermore, the financial risk profile of the Company is categorised by posting losses in FY20 and modest coverage indicators. MHPL's declining revenue & profitability levels coupled with increasing debt levels have resulted in overall weakening of debt protection metrics.

Also, due to the COVID-19 pandemic and the lockdown associated with it has largely impacted the Company in booking adequate revenue levels in current financial year. It has booked total revenue of INR49.05 Crore till 9MFY21. However, based on the rebounding of economic activities and different fiscal & monetary measures by the Government, Infomerics expects a positive traction in the Company's performance from FY22 onwards.

- ***Order based business model leading to working capital intensive nature of operations:***

The operating cycle/inventory conversion period for manufacturing of engineering products is around three to twelve months. The lengthy operating cycle keeps the margins vulnerable to fluctuations in steel prices due to the fixed-price nature of contracts with its customers.

Though the company has a diversified customer base across industries, the performance is susceptible to cyclicality in investments by the end user industries.

MHPL's business model is order driven wherein each order is customized as per the specific needs of the end user. The inventory level stood high at 259 days in FY20 (FY19: 214 days), due to the long gestation period. Altogether, working capital cycle is elongated due to blockage of funds in the form of inventory and receivables.

Analytical Approach &Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

MHPL has a stretched liquidity position marked by modest net cash accruals, high bank limit utilization and intensive working capital nature of operations. The working capital limits remained almost full during the last twelve months ended December 2020.

The liquidity is expected to remain stretched in the short-medium term on account of modest accruals as against the maturing debt obligations.

About the Company

Metalfab Hightech Private Limited (MHPL) is a certified engineering company engaged in Heavy Fabrication for all the core sectors like Power, Sugar, Cement, Infrastructure and Railways and is also RDSO (Research Design and Standards Organisation) approved for its specific products. The company is well equipped with machineries and facilities for Material preparation, Forming, Welding, Machining, Material Handling and Surface preparation. Established in 1981, the family owned company and employs around 800 people.

Financials:

(INR Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	97.66	92.21
EBITDA	15.05	12.11
PAT	0.36	-0.87
Total Debt	57.78	67.30
Tangible Net worth	40.58	39.71
EBITDA (%)	15.41	13.13
PAT (%)	0.37	-0.94
Overall Gearing Ratio (x)	1.42	1.69

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (November 09th, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – Cash Credit	Long Term	33.50	IVR BB; Credit Watch with developing Implication	IVR BB/Stable	--	--
2.	Long Term Fund Based Facility – O/s Term Loans	Long Term	17.75 (Increased from 9.92)	IVR BB; Credit Watch with developing Implication	IVR BB/Stable	--	--
3.	Short Term Fund Based Facility – Letter of Credit	Short Term	22.90	IVR A4; Credit Watch with developing Implication	IVR A4	--	--
4.	Short Term Non-Fund Based Facility – Bank Guarantee	Short Term	33.10	IVR A4; Credit Watch with developing Implication	IVR A4	--	--

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facility – Cash Credit	33.50	NA	NA	NA	IVR BB; Credit Watch with developing Implication
Long Term Fund Based Facility – Term Loans	17.75 (Increased from 9.92)	NA	NA	Upto October 2025	IVR BB; Credit Watch with developing Implication
Short Term Fund Based Facility – Letter of Credit	22.90	NA	NA	NA	IVR A4; Credit Watch with developing

					Implication
Short Term Non-Fund Based Facility – Bank Guarantee	33.10	NA	NA	NA	IVR A4; Credit Watch with developing Implication