

June 27, 2024

Mecon Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Non-fund based - Others	338.95	395.53	[ICRA]BBB(Stable); reaffirmed
Short term – Fund-based - Cash credit	100.00	100.00	[ICRA]A2; reaffirmed
Long term/Short term - Unallocated	70.05	13.47	[ICRA]BBB(Stable)/[ICRA]A2; reaffirmed
Total	509.00	509.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation reflects Mecon Limited's (Mecon) strong liquidity position, reflected in its sizeable free cash/bank and liquid investments of over Rs. 550 crore and nil fund-based debt as on March 31, 2024. Its status as a 100% Government of India (GoI)-owned public sector undertaking (PSU) lends it with a high degree of financial flexibility, supporting the rating action. Mecon's profitability has remained highly volatile because of the operating losses in the past and low margins.

In FY2024, Mecon is estimated to report low single-digit operating margin. The net cash accruals are, however, expected to be supported by the substantial non-operating income from its large cash and investment balance. Going forward, while a healthy outstanding order book position provides revenue visibility in the near term, the operating profitability is expected to continue to be subdued. Nonetheless, Mecon's debt-free status and a healthy liquidity position will keep the debt metrics comfortable. The execution of high-margin contracts and diversification into the non-metal segments is expected to improve the company's financial performance in the medium term and will be a key monitorable.

The ratings continue to factor in Mecon's high level of competency in the engineering and consultancy segment with a demonstrated track record of more than four decades and its continued efforts in diversifying into the higher margin non-metal segment, thus reducing the sectoral concentration risk. Further, the high share of revenue from PSU clients limits the counterparty risks. However, an elongated receivable period will keep the working capital cycle elevated. The company has seen limited accretion to reserves, given its volatile and subdued net profits because of the high manpower cost over the years.

The Stable outlook on the long-term rating reflects Mecon's comfortable revenue visibility, and ICRA's expectation of a gradual pick-up in the execution of higher-margin orders, which would help the company maintain a healthy liquidity profile.

Key rating drivers and their description

Credit strengths

Status as a 100% GoI-owned entity – Mecon is a Miniratna PSU under the administrative control of the Ministry of Steel. In the past, the company has received financial support from the GoI, both in the form of equity infusion and extension of corporate guarantee for its borrowing programmes. Moreover, given its 100% GoI ownership, Mecon enjoys a high degree of financial flexibility with the lenders, which supports its credit profile.

Strong liquidity profile, reflected in sizeable cash balance and debt-free status – The liquidity remains strong with cash and liquid investment of over Rs. 500 crore in FY2024. The large cash balances, along with its debt-free status, provide comfort.

High competency in engineering and consultancy segment – Mecon has a demonstrated track record of over four decades in the engineering and consultancy segment and has established itself as one of the leading consultancy companies in India, especially in the metal and mining segments. Over the last several years, Mecon has also progressively built capabilities in the energy and infrastructure segments, especially in sectors like power and oil & gas.

Increase in share of orders from non-metal segment partly mitigates sectoral concentration risks – Mecon has had traditionally high dependence on the metal sector, exposing the company to sectoral concentration risks. However, as the pace of steel capacity addition slowed down in India, Mecon started diversifying into the infrastructure and energy sectors from FY2016. Thus, the share of metal projects has steadily reduced in recent years. A major growth area for Mecon has been in the energy SBU, where it has received large orders in the oil & gas segment. Going forward, the share of metals is expected to remain in the range of ~50-60%.

Credit challenges

Profits remain highly volatile – Mecon’s financial performance has remained highly volatile, reflected in the operating losses in the past (till FY2018) and the positive margin thereon due to its focus on revenue diversification and growth in the non-metal segments like energy and infrastructure and write-back of past liabilities. The operating margins, however, have remained low (below 3% in five of the last six years).

Margins impacted by sizeable manpower costs; employee productivity steadily improving – Mecon, being a PSU, has an inherent cost disadvantage over private players due to its high employee cost burden. In the last few years, employee expenses accounted for 40-60% of the overall operating cost of the PSU. This results in a high degree of operating leverage, though this has improved in FY2023 and FY2024.

Limited accretion to reserves over the years – Mecon’s accretion to reserves has remained limited in the recent past due to its subdued profitability. The TNW has remained range-bound due to low profitability. Therefore, Mecon’s TOL/TNW has been elevated at above 2.4 times for the last four years.

Liquidity position: Strong

Mecon’s liquidity position is strong, supported by its large cash and FD balance of above Rs. 550 crore, and no debt repayment obligations or major capex requirements. ICRA expects Mecon’s free cash flows to remain positive in the near term and the liquidity position is likely to stay healthy.

Rating sensitivities

Positive factors - ICRA could upgrade Mecon’s ratings if the company is able to demonstrate a healthy improvement in its profits and maintain healthy liquidity.

Negative factors - Pressure on Mecon’s ratings could arise in case of a significant deterioration in its liquidity position along with weakening of the debt coverage indicators. A decline in the company’s revenues and profitability on a sustained basis will also weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent: Government of India As Mecon plays a key supporting role in the country’s infrastructure development, the assigned ratings factor in its strategic importance to the GoI, which ICRA expects should induce the Government to extend financial support to the rated entity, should there be a need

Consolidation/Standalone	Standalone
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About the company

Mecon, incorporated in 1973 as a subsidiary of Steel Authority of India Limited, is one of the leading organisations that provides design, engineering, consultancy and contracting services in the field of metals and mining, power, oil & gas, and infrastructure. Mecon provides a full range of services required to set up greenfield and brownfield projects, from the concept to the commissioning, including turnkey execution. In 1978, Mecon was made an independent company under the administrative control of the Ministry of Steel.

Key financial indicators (audited)

Mecon Standalone	FY2022	FY2023
Operating income	616.4	900.8
PAT	13.7	31.0
OPBDIT/OI	2.6%	0.5%
PAT/OI	2.2%	3.4%
Total outside liabilities/Tangible net worth (times)	2.5	2.4
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	10.7	2.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
								Jun 27, 2024
1 Non-fund based limits	LT	395.53	290.97	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 Working capital facilities	ST	100.00	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2	
3 Unallocated limits	LT/ST	13.47	-	[ICRA]BBB (Stable)/[ICRA]A2	-	[ICRA]BBB (Stable)/[ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A2	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based limits	Very Simple
Working capital facilities	Simple
Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund based limits	NA	NA	NA	395.53	[ICRA]BBB (Stable)
NA	Working capital facilities	NA	NA	NA	100.0	[ICRA]A2
NA	Unallocated limits	NA	NA	NA	13.47	[ICRA]BBB(Stable)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- Not applicable

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