

Melco India Private Limited

Instrument	Amount Rated	Rating Action
	In Rs. Crore	As of June, 2016
Fund based limits	10.60	[ICRA]BBB-(Stable); <i>assigned</i>
Non fund based limits	36.00	[ICRA]A3; <i>assigned</i>
Proposed Non Fund based limits	23.40	[ICRA]A3; <i>assigned</i>
Total	70.00	

ICRA has assigned its long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs 10.60 crore¹ fund-based bank limits of Melco India Private Limited (MIPL)². ICRA has also assigned its short term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs 36.00 crore non-fund based and Rs 23.40 crore proposed non-fund based limits of MIPL. The outlook on the long term rating is 'Stable'.

ICRA's ratings take into account the established position and experience of MIPL's promoters in the turnkey execution of ash handling systems and its strong and reputed client base, which includes market leaders like NTPC Limited (NTPC), Bharat Heavy Electricals Ltd (BHEL) etc. The ratings factor in MIPL's healthy order book position which lends strong revenue visibility in the medium term. Further, ICRA's ratings factor in the healthy year-on-year growth in MIPL's top line in FY2016, backed by an increase in orders executed and client addition, along with its moderate operating margins (OPBDITA/OI³ of 12.3% and 11.3% in FY2015 and FY2016 respectively) owing to considerable share of Operation and Maintenance (O&M) revenues, wherein the margins are comparatively higher. The ratings also positively factor in the company's comfortable capital structure, with a gearing of 0.95x as on March 31, 2016 and healthy debt protection metrics as reflected in OPBDITA/Interest of 3.43 times and DSCR⁴ of 2.88 times in FY2016.

The ratings are however constrained by the company's comparatively small scale of operations in an industry dominated by large players and the fact that it enters into fixed price contracts with its customers, exposing it to raw material price variation risk. Moreover, the ratings factor in the high working capital intensity of the business as reflected by NWC/OI⁵ of 47% in FY2016 on the back of higher receivables and retention money. This is critical, given the large execution commitments of the company in the near to medium term, thus necessitating high funding requirements. ICRA also takes note of the company's plans to reduce its working capital intensity, by releasing its retention money (replacing it with guarantees) and also avail mobilization advances; towards this end the company has applied for enhancement of its non fund based limits.

MIPL's ability to continue to scale up its operations, sustain its operating margins and optimally manage its working capital cycle and the associated funding; will be the key rating sensitivities.

About the Company

MIPL was originally established as a partnership firm in 1971 by Mr. V K Malik and Mr. K Chandra. In 1995, Mr. K Chandra retired from the firm and Mr. Sandhir Malik, son of Mr V K Malik, joined as partner; the firm was then reconstituted as a private limited company with the current name. The promoters have more than four decades of experience in supplying equipment and systems for various state power utilities and private sector power plants. MIPL undertakes turnkey design projects, and commissioning and installation of ash handling plants and mill reject systems. It also manufactures tools for ash handling equipment and mill reject systems through its factory located in Faridabad (Haryana) equipped with induction furnaces, oil fired rotary furnaces, electric furnaces and heat treatment furnaces. The company also undertakes operations and maintenance activity (O&M) of the power plants on a job work basis. Its key clients include NTPC, BHEL, National Aluminium Company (NALCO), Aditya Birla Group, Ambuja Cements, JK Cements, etc.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

³ OPBDITA/OI-Operating Profit before depreciation, interest, taxes and amortization

⁴ DSCR-Debt Service Coverage ratio

⁵ NWC/OI- Net working capital to operating income



Recent Results

In FY2015, MIPL reported an operating income (OI) of Rs 40.92 crore and a profit after tax (PAT) of Rs 1.68 crore, as compared to an OI of Rs 40.01 crore and a PAT of Rs. 1.58 crore in FY2014. The company, on a provisional basis, reported an operating income of Rs 66.00 crore and a PAT of Rs 3.43 crore in FY2016.

June 2016

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