September 27, 2019

MTAR Technologies Pvt. Ltd.: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund based/ Cash Credit	58.00	[ICRA]BBB-(Stable); Assigned
Non-Fund Based	90.00	[ICRA]BBB-(Stable)/[ICRA]A3; Assigned
Total	**148.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings consider the established presence of MTAR Technologies Pvt. Ltd. (MTAR) in the engineering industry, catering to various segments including power, nuclear, space and defence. The company has established relationships with renowned clients including Indian Space Research Organisation (ISRO), Nuclear Power Corporation of India (NPCIL), Defence Research and Development Laboratory (DRDL) and Bloom Energy Corporation (Bloom Energy). It has been receiving repeat orders from its customers over the years. Moreover, it is the only supplier to its customers for several products and hence faces limited competition. The ratings consider MTAR's healthy unexecuted order book of Rs. 364.2 crore as on August 23, 2019 which is 2.0 times of FY2019 revenues, providing revenue visibility over the near term. The ratings also factor in favourable demand prospects across its end-user segments given the government's thrust on the indigenisation of the production. The ratings also consider the recent improvements in MTAR's financial profile, backed by strong revenue growth and comfortable cash flows from the exports segment, which has aided in achieving comfortable capital structure and coverage indicators.

The ratings are, however, constrained by the high customer concentration risk. Bloom Energy contributed over 45-60% to its revenues over the past three years. Any decline in offtake from Bloom would adversely impact MTAR's revenues and profitability. The ratings also consider the working capital intensive nature of operations owing to long production and receivables cycle, inherent to the nature of the industry. The ratings further consider the significant fluctuations in profitability margins. However, its margins have improved over the past two years owing to increased proportion of exports, which are more margin accretive. The company's profitability is also exposed to exchanges rate fluctuations, which have impacted its profitability in the past.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's belief that the company will continue to benefit from its established relationship with a reputed customer base and its track record as a supplier of niche and quality products to its clients. Healthy demand prospects for its end-use segments would also augur well for the company.

Key rating drivers and their description

Credit strengths

Established track record in engineering industry – The company has an established presence in the engineering industry, catering to varied segments, including power, nuclear, space, aerospace and defence. The company is the sole supplier of several products to its clients, indicating its expertise in manufacturing of niche and quality products, which also limits competition.

Reputed client base – The company has a renowned client base including reputed players such as Bloom, ISRO, NPCIL, DRDL etc. It has established relationship with its customers and has been receiving repeat orders from them.

Healthy order book position – The company has unexecuted orders worth Rs. 364.2 crore as on August 23, 2019, which is 2.0 times of FY2019 operating income, providing revenue visibility over the medium term.

Favourable demand prospects – The favourable demand prospects across its end-user segments, given the government's thrust on indigenisation of production, augur well for the company's growth.

Healthy capital structure and comfortable coverage indicators – The company's financial profile is characterised by comfortable capital structure with a gearing of 0.1 times as on March 31, 2019, and healthy coverage indicators as indicated by an interest coverage at 12.1 times, NCA/Total Debt at 115% and Total Debt/OPBDITA at 0.5 times as on March 31, 2019.

Credit challenges

High customer concentration – The company faces customer concentration risk as it derived 61% of its revenues from a single customer, Bloom Energy Corporation, in FY2019. Bloom is expected to continue to be its major customer in the near term. The company's revenues and margins would be adversely impacted in case of any decline in offtake from Bloom.

Working capital intensive nature of operations – The company's operations are working capital intensive in nature as indicated by high working capital intensity, which remained at 40-50% over the years due to high inventory and debtor days. The inventory days are high as the company needs to maintain high raw material inventory to meet strict delivery timelines. Further, the production process is inspected at every stage, leading to higher work-in-progress inventory. The debtor days are higher as the bills raised are paid after the detailed testing.

Significant fluctuations in profitability margins – The company's margins are exposed to significant variations depending on the type and mix of the orders executed. In the past, sizeable inventory and bad-debt write-offs during certain years also resulted in depressed margins during those years. On the other hand, the exports have been more margin-accretive and higher proportion of export revenues resulted in improved margins for MTAR over the past two years. However, MTAR is exposed to exchanges rate fluctuations as exports are not completely offset by raw material imports.

Liquidity position: Adequate

The liquidity position of the company is adequate with cash flow from operations of Rs. 40-50 crore, annual capex of ~Rs. 20-25 crore and comfortable average working capital utilisation of ~25%. The capex would be funded through internal accruals and the company does not have any repayment obligations. MTAR also availed Rs. 90-crore non-fund based limits to provide performance guarantee and BGs for customer advances. Utilisation of the same stood at 76% over the past twelve months. Overall, ICRA expects MTAR to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the company diversifies its revenue and customer concentration, while maintaining consistent operating margins and improving its working capital cycle.

Negative triggers – Negative pressure on MTAR's rating may arise if there are delays in order execution resulting in lower-than-expected accruals for the company and or if a stretch in the working capital cycle impacts its liquidity position. Specific credit metrics that may lead to a downgrade of MTAR's rating include NWC/OI greater than 50%, and Interest coverage below 2.8 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

MTAR started as a partnership firm in 1970 and was incorporated as a private limited company in 1999 by Late P. Ravindra Reddy, Sri K. Satyanarayana Reddy and Sri P. Jayaprakash Reddy. The company has seven manufacturing units in Hyderabad and primarily manufactures various machine equipment, assemblies, sub-assemblies, precious tools and spare parts for energy, nuclear, space, aerospace, defence and other engineering industries. The company also has surface treatment, heat treatment and electroplating facilities. Its plant is ISO 9001:2015 and AS9100C certified. The company is in the process of obtaining NADCAP certification for surface treatment.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	156.8	184.1
PAT (Rs. crore)	6.4	39.2
OPBDIT/ OI (%)	20.4%	29.4%
RoCE (%)	9.3%	18.1%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.6	0.5
Interest Coverage (times)	7.2	12.1

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 27-Sep 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
						-	-	-
1	Cash Credit	Long Term	30.00	-	[ICRA]BBB- (Stable)	-	-	-
2	Export Packing Credit	Long Term	28.00	-	[ICRA]BBB- (Stable)	-	-	-
3	Bank Guarantee	Long Term/ Short Term	85.00	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-
4	Letter of credit	Long Term/ Short Term	5.00	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	30.00	[ICRA]BBB-(Stable)
NA	Export Packing Credit	-	-	-	28.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee	-	-	-	85.00	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Letter of credit	-	-	-	5.00	[ICRA]BBB-(Stable)/[ICRA]A3

Source: MTAR

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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