June 17, 2020

MTAR Technologies Pvt. Ltd.: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/ Cash Credit	58.00	58.00	Upgraded to [ICRA]BBB(Stable) from [ICRA]BBB-(Stable)
Non-fund Based	90.00	10.00	Upgraded to [ICRA]BBB(Stable)/[ICRA]A3+ from [ICRA]BBB-(Stable)/[ICRA]A3
Unallocated	0.00	80.00	Upgraded to [ICRA]BBB(Stable)/[ICRA]A3+ from [ICRA]BBB-(Stable)/[ICRA]A3
Total	**148.00**	**148.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in ICRA's base case expectation of MTAR Technologies Pvt. Ltd's (MTAR) performance being sustained backed by healthy revenue growth and stable operating profitability margins. The company reported an unexecuted order book of Rs. 345.1 crore as on March 31, 2020, which is 1.6 times of FY2020 revenues, apart from running orders from Bloom Energy Corporation (Bloom) received on a regular basis. ICRA notes that this is expected to support its targeted revenue growth. The ratings continue to consider its established relationships with renowned clients including the Indian Space Research Organisation (ISRO), Nuclear Power Corporation of India (NPCIL), Defence Research and Development Laboratory (DRDL), etc. Moreover, MTAR is the sole supplier for several products and hence faces restricted competition. The ratings factor in its favourable long-term demand prospects across its end-user segments, given the Government's thrust on the indigenisation of the production. ICRA takes note the established presence of MTAR in the engineering industry, catering to various segments including power, nuclear, space and defence, which resulted in repeat orders from its customers over the years, thereby supporting its revenues.

While ICRA's base case scenario considers a healthy performance, the company is exposed to challenges posed by the Covid-19 pandemic, which could impact its order inflow and execution, timely offtake from customers, and payment cycle. The rating considers the high customer concentration risk as Bloom contributed to 60-64% of its revenues over the past two years. The continuing spread of Covid-19 pandemic in the USA, one of the Bloom's key markets, could adversely impact MTAR's revenues in this segment in the near term. However, ICRA notes that higher orders from domestic clients in nuclear and space segments, which are relatively less exposed to demand risks, given its strategic nature, could mitigate the risk of reduced order inflows from Bloom to an extent. MTAR's ability to sustain revenues and margins, despite the challenges from Covid-19, would be a key rating sensitivity. The ratings consider the company's working capital-intensive nature of operations owing to long production and receivables cycle, inherent to the nature of the industry. Historically, its margins have witnessed volatility. However, MTAR's margins improved during the past three years. Despite improved margins in FY2020, growth in its cash accruals and improvement in liquidity remained limited by the buyback of 5% of shares, which resulted in cash outflow of Rs. 20 crore.

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. MTAR is the sole supplier of several products to its clients, indicating its expertise in manufacturing of niche and quality products and limiting competition.

Healthy financial profile – The company's operating income (OI) witnessed a healthy growth of 18% to Rs. 216.5 crore in FY2020 from Rs. 184.1 crore in FY2019 on the back of higher order inflow and timely execution of the same, and its operating margins remained healthy at ~29%. Its financial profile improved in FY2020 on account of healthy revenue growth and improved margins. MTAR had an unexecuted order book of Rs. 345.1 crore as on March 31, 2020, which is 1.6 times of FY2020 revenues, apart from the running orders from Bloom received regularly, which is expected to support its near-term growth.

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 the same.

Favourable long-term 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 long-term growth prospects.

Credit challenges

Challenges to order execution and demand owing to Covid-19 pandemic – The continuing spread of Covid-19 pandemic could adversely impact the order inflow, timely execution, and offtake of the existing orders, impacting MTAR's near-term revenue growth and financial profile. The company's ability to sustain revenues and margins, despite the challenges from Covid-19 outbreak, would be a key rating sensitivity.

High customer concentration – The company has high customer concentration as it derived 64% of its revenues from a single customer, Bloom Energy Corporation, in FY2020. MTAR's revenues in this segment could be adversely impacted in the near term, given the spread of Covid-19 pandemic in the USA, one of the Bloom's key markets. However, it has a healthy order book from domestic clients in the nuclear and space segments, which could mitigate the impact of lower revenues from Bloom to an extent.

Working capital-intensive operations – The company's operations are working capital-intensive in nature as indicated by high working capital intensity of 35-45% during the past three years due to high inventory and debtor days. The inventory days are high as it 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. Moreover, its inventory was higher as of March 2020 because of delay in executing orders due to the nationwide lockdown imposed to contain the Covid-19 pandemic. The debtor days were higher as of March 2020 on account of delayed receivables from its customers with the imposition of the lockdown.

Liquidity position: Adequate

The company's liquidity position is **adequate** with free cash balance of Rs. 15-20 crore and undrawn working capital limits of Rs. 20-25 crore as of March 2020. In the near term, MTAR is expected to incur a capex of Rs. 25-30 crore, partly funded by term loans. It does not have any repayment obligations in the near term. 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 – ICRA may upgrade the ratings if the company is able to sustain its healthy revenue growth, profitability and working capital cycle while continuing to reduce its customer concentration backed by strengthening orderbook across its customer industries including energy, space, nuclear, aerospace & defense segments.

Negative triggers – Negative pressure on the ratings may arise if any delays in order execution due to covid-19 pandemic resulting in lower-than-expected revenues and accruals for the company, or if any 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%.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

MTAR started as a partnership firm in 1970 and was incorporated as a private limited company in 1999 by the Late P. Ravindra Reddy, Sri K. Satyanarayana Reddy and Sri P. Jayaprakash Reddy. The company has six manufacturing units in Hyderabad and has recently started a new unit in Adibatla. It 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 has surface treatment, heat treatment and electroplating facilities. Its plant is ISO 9001:2015 and AS9100C certified. MTAR is in the process of obtaining NADCAP certification for surface treatment.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	184.1	216.5
PAT (Rs. crore)	39.2	37.8
OPBDIT/ OI (%)	29.4%	28.9%
RoCE (%)	18.1%	19.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.5	0.4
Interest Coverage (times)	12.1	14.8
DSCR (times)	10.7	13.9

*Source: Company *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					June 17,2020	September 27,2019	-	-
1	Cash Credit	Long-term	30.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2	Export Packing Credit	Long-term	28.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
3	Letter of credit	Long-term/ Short-term	10.00	-	[ICRA]BBB (Stable) /[ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-
4	Unallocated	Long-term/ Short-term	80.00	-	[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	Letter of Credit	-	-	-	10.00	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Unallocated	-	-	-	80.00	[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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