

April 07, 2022

Mahindra Tsubaki Conveyor Systems Private Limited: Ratings downgraded to [ICRA]A (Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	3.00	3.00	[ICRA]A (Stable); downgraded from [ICRA]A+ (Stable)
Non-fund Based	23.17	23.17	[ICRA]A1; downgraded from [ICRA]A1+
Total	26.17	26.17	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings of Mahindra Tsubaki Conveyor Systems Private Limited (MTCSP) factors in the exit by the Mahindra and Mahindra Group (M&M, rated [ICRA]AAA (Stable)/[ICRA]A1+). Earlier, the ratings factored in the strong financial flexibility by being a part of the M&M Group. ICRA notes that the M&M Group sold its entire 49% stake in MTCSP to Tsubakimoto Bulk Systems Corp, which is a wholly-owned subsidiary of Tsubakimoto Chain Co., Japan (Tsubakimoto) at a consideration of Rs. 58.89 crore on February 21, 2022 and accordingly, MTCSP ceased to be an associate of M&M. Consequent to the transaction, Mr. Zhooben Bhiwandiwalla (nominee director from M&M Group) has also resigned from the company's board, while other directors and representatives from Tsubakimoto Group continues to manage the company. While the M&M Group has exited, ICRA does not foresee any material impact on the company's operations on account of the above transaction.

The ratings, however, continue to derive comfort from the strong financial profile and technical and operational support from the Tsubakimoto Group. The Tsubakimoto Group is the largest chain manufacturing company in Japan with presence across more than 26 countries in chain manufacturing, automotive parts operations, material handling and power transmission units and components. In addition to technical knowledge, the Tsubakimoto Group assists in product development and supplies critical raw material (chains for conveyor systems) with liberal credit terms. ICRA also notes the established positioning of the company in the chain bucket elevator systems and chain conveyors operating between 100 metric tonnes (MT) per hour and 2,000 MT per hour, especially in the cement and automotive industry. This apart, the ratings factor in the company's strong capitalisation with nil debt levels and adequate liquidity with free cash and liquid investments of ~Rs. 18 crore as on December 31, 2021. In the absence of any major capex or investment plans, the company is expected to maintain its net-debt free status in the medium term.

The ratings are, however, constrained by the modest scale of operations and profitability. The ratings also factor in the high dependence on the cement and automobile sectors, which exposes the company's revenues to any slowdown in the end-user industries. The ratings also factor in the susceptibility of the company's profitability to the adverse movement in raw material prices (mainly steel).

The Stable outlook on the rating reflects ICRA's opinion that MTCSP will continue to benefit from the strong clientele with a healthy market share in key product categories, a robust capital structure and debt protection metrics along with strong support from its parent, the Tsubakimoto Group.

Key rating drivers and their description

Credit strengths

Strong parent support – The M&M Group sold its entire 49% stake in MTC SPL to Tsubakimoto Bulk Systems Corp, which is a wholly-owned subsidiary of Tsubakimoto Chain Co. at a consideration of Rs. 58.89 crore on February 21, 2022 and accordingly, MTC SPL ceased to be an associate of the M&M Group. With the M&M Group's exit, MTC SPL is now being held by Tsubakimoto Chain Co. (42.5%) and Tsubakimoto Bulk Systems Corp. (57.5%). The Tsubakimoto Group is the largest chain manufacturing company in Japan with a presence across more than 26 countries in chain manufacturing, automotive parts operations, material handling and power transmission units and components. In addition to technical knowledge, the Tsubakimoto Group assists in product development that supports the company's growth, product diversification and differentiation, besides facilitating exports to countries within the Tsubakimoto Group's reach. It also supplies critical raw material (chains for conveyor systems) with liberal credit terms.

Healthy capital structure and debt protection metrics - The company's capital structure and debt protection metrics are healthy with nil reliance on external debt. Moreover, its total outside liabilities/tangible net worth is expected to remain low at 0.4 times in FY2022e. Its credit profile is further supported by free cash and liquid investments of ~Rs. 18 crores, leading to a negative net debt position.

Strong clientele with healthy market share in key product categories - MTC SPL's product profile majorly comprises of bulk material handling systems (BMHS) and unit handling systems (UHS). BMHS sales are primarily from the cement sector, wherein the company enjoys a strong clientele (key domestic cement manufacturers and global OEMs). It also has a healthy market share in some other product categories, such as, chain bucket elevator systems and chain conveyors operating between 100 MT per hour and 2,000 MT per hour.

Credit challenges

Modest scale of operations and profitability - The company's operations are modest with an operating income of Rs. 64.3 crore in FY2021 and Rs. 75.9 crore in 11M FY2022 (provisional unaudited financials). Its operating margins remained at 5.6% in FY2021 and is expected to improve to around 7-8% in FY2022e, supported by an improvement in scale, though it remains modest because of the significant dependence on imports and bought-out components.

Vulnerability of profitability to fluctuations in raw material prices - MTC SPL mainly enters fixed-price contracts with its clients, which exposes its profitability to any adverse movement in raw material prices (mainly steel). The turnaround time for the projects generally ranges from five to six months, but the company maintains a short interval between the order receipt and raw material procurement, which mitigates the impact of raw material (mainly steel) price fluctuation risks to an extent. It depends on the import of chains for conveyor systems from the Tsubakimoto Group, which exposes the company to the fluctuation in forex rates. The risk is partly mitigated as MTC SPL enters into 100% forward contracts once the imports are recognised as purchases. Therefore, it remains susceptible to the fluctuations majorly during the transit.

High revenue dependence on cement and automobile sectors - A predominant share of the company's revenues are derived from cement companies (~68% in 11M FY2022), followed by automobile sector. Thus, the company's revenues remain exposed to any deferment of capacity expansion plans of companies from these sectors. However, ICRA notes that the company has been diversifying its end-user profile by executing projects related to power plants, ash handling systems, chemicals, fertilisers, etc. In the catered product segments, it faces competition from global as well as local players, which have a wider product offering. The risk is partly mitigated by MTC SPL's healthy market share and strong clientele in some of the product categories.

Liquidity position: Adequate

MTC SPL's liquidity position is adequate, evident from nil debt repayments and free cash and liquid investments of Rs. 18 crore as on December 31, 2021. Further, the liquidity is likely to remain adequate in the absence of any major capex plans in the near to medium term.

Rating sensitivities

Positive factors - The ratings could be upgraded if the company demonstrates a significant growth in its scale and profitability on a sustained basis, while maintaining the current credit metrics. Any improvement in the credit profile of the parent Group may also lead to a rating upgrade.

Negative factors - MTCSP's ratings would be sensitive to any deterioration in the credit profile of the parent or weakening of linkages/support from the parents. Further, negative pressure on MTCSP's rating could arise if there is any significant decline in earnings. Any significant debt-funded capex or stretch in the working capital cycle that impacts the capital structure and the liquidity profile may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Equipment Rating Approach - Implicit parent or group support
Parent/Group Support	Parent/Group Company: Tsubakimoto Group ICRA expects the Tsubakimoto Group to be willing to extend financial support to MTCSP out of its need to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Mahindra Conveyors Systems Private Limited was incorporated in January 2010, following its demerger from Mahindra Engineering and Chemical Private Limited (MECPL). In July 2014, as the Tsubakimoto Group increased its stake to 51% from 8.5% and the company was renamed Mahindra Tsubaki Conveyor Systems Private Limited (MTCSP). Recently, in February 2022, the M&M Group sold its balance 49% stake to Tsubakimoto Group and thus, MTCSP ceased to be an associate of the M&M Group. With the M&M Group's exit, MTCSP is now being held by Tsubakimoto Chain Co. (42.5%) and Tsubakimoto Bulk Systems Corp. (57.5%). The Tsubakimoto Group is the largest chain manufacturing company in Japan with presence across more than 26 countries in chain manufacturing, automotive parts operations, material handling, power transmission units and components. The Group lends its technical expertise and supplies chains to MTCSP (which are the most essential parts of conveyor systems), providing a competitive edge. MTCSP primarily operates in the chain bucket elevator and chain conveyor (bulk handling systems) divisions in the cement sector, in addition to conveyors for thermal power plants, chemicals, incinerators and the automotive industry (unit handling systems).

Key financial indicators (audited)

Standalone	FY2020	FY2021	11M FY2022*
Operating Income (Rs. crore)	70.6	64.3	75.9
PAT (Rs. crore)	1.8	2.2	3.7
OPBDIT/OI (%)	4.5%	5.6%	8.7%
PAT/OI (%)	2.6%	3.4%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3	0.4
Total Debt/OPBDIT (times)	nm	nm	nm
Interest Coverage (times)	nm	nm	nm

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional Financials; nm - not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb-22 (Rs. crore)	Date & Rating on		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 7, 2022	Jul 26, 2021			
1	Cash Credit	Long-term	3.00	NA	[ICRA]A (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based	Short-term	23.17	NA	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based Cash Credit	Simple
Short-Term - Non-fund based	Very Simple

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, is available on ICRA's 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	NA	NA	NA	3.00	[ICRA]A (Stable)
NA	Non-fund based	NA	NA	NA	23.17	[ICRA]A1

Source: Mahindra Tsubaki Conveyor Systems India Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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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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