November 07, 2022

Motherson Techno Tools Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund-based – Cash Credit Facilities	12.00	12.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Long-term/Short-term Unallocated	23.00	23.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Long-term/ Short -term – Non-fund Based Facilities	(10.00)	(10.00)	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for Motherson Techno Tools Limited (MTTL) continues to factor in its strong parentage, with the company being a joint venture between Samvardhana Motherson International Limited (SAMIL; with 75% holding, the promoter entity of Samvardhana Motherson Group (SMG); rated [ICRA]A1+) and Sumitomo Electric Industries Limited (SEIL; with 25% holding, a Sumitomo Group company, rated A2, Stable by Moody's Investor Services). While the company benefits from healthy financial flexibility as a part of SMG, it also continues to enjoy access to technical assistance for product development activities from SEIL.

The rating reaffirmation also continues to favourably factor in the company’s strong financial risk profile, characterised by comfortable capital structure and strong debt coverage metrics. The company remains debt free (apart from lease liabilities) and has a strong liquidity profile (healthy cash and bank balances). MTTL recorded a healthy ramp up in operations in FY2022 with revenues of ~Rs. 197 crore in FY2022 at a consolidated level, a growth of ~38% over FY2021. The company’s profitability metrics also continue to remain robust and benefitted from a ramp up in scale of operations (OPBDITA margin of ~23% in FY2022 as opposed to ~19% in FY2021). Aided by a steady recovery in the automotive sector as well as increased product offerings across diverse sectors, the company is expected to record a moderate to healthy growth in revenues over the medium, while maintaining healthy profitability indicators.

MTTL has a strong presence in the niche segment of Cubic Boron Nitride (CBN) and Poly-Crystalline Diamond (PCD) tools, with an estimated market share of ~25%; over the past few years, there has been a continued shift in the company's product mix towards higher value accretive manufactured goods. The ratings however remain constrained by the company's modest scale of operations, and MTTL’s demand prospects would remain exposed to any challenges faced by the automotive industry, which still contributes to most of the company’s revenues. Furthermore, the performance cutting tool industry remains highly competitive in nature. That said, the company’s foray into two new segments namely, the steel industry and electronics products, should help augment MTTL’s revenue growth prospects and partially offsets the discussed limitations.

The Stable outlook on the ratings reflects ICRA’s expectation that MTTL will continue to maintain a healthy credit profile, aided by its strong parentage and technological capabilities, which would aid it in gaining regular business from its existing customers.

Key rating drivers and their description

Credit strengths

Strong business profile aided by technical support from SEIL – MTTL has a strong presence in the niche segment of Cubic boron nitride (CBN) and Polycrystalline diamond tools (PCD) tools, with an estimated market share of ~25%. The company benefits from access to technical assistance for product development activities from SEIL, aiding in its ability to provide for a wide range of value-added product offerings. MTTL has regularly invested in capacity expansion and enhancing its in-house manufacturing capabilities with the help of SEIL. This has resulted in a gradual increase in contribution of the manufactured products to net sales over the years.

Strong financial flexibility emanating from healthy promoter profile – MTTL is promoted by SMG, which holds a 75% stake in the company mainly through SAMIL, the key holding entity of the group. MTTL benefits from access to healthy financial flexibility owing to the SAMIL's rated ([ICRA]A1+) strong credit profile.

Healthy financial risk profile – The company's dependence on bank borrowings has remained negligible over the past several years. Additionally, the company continues to maintain healthy cash reserves on its books, thereby strengthening its financial risk profile. As on March 31, 2022, the company's total debt outstanding of ~Rs. 8 crore entirely comprised operating lease liabilities, resulting in zero gearing ratio and Debt/OPBITDA of ~0.2 time. Going forward, the company's leverage and coverage indicators are anticipated to remain healthy, owing to no scheduled debt repayments and assuming no major debt-funded capex.

Credit challenges

Moderate scale of operations – Despite the steady growth in revenues, the company's scale of operations remains moderate with an operating income of ~Rs. 197 crore in FY2022. Even as the company is expected to record moderate revenue growth over the medium term, aided by an expectation of new customer additions as well as continuation of business from its existing customers, its near-term growth prospects remain exposed to any challenges faced by the automotive industry (drives ~70-75% of overall revenues).

High competitive intensity in the performance cutting tool industry – The performance cutting tool industry remains highly competitive with numerous global players, such as Kennametal India Limited, Sandvik Asia Private Limited, TaeguTec India Private Limited and MMC Hardmetal India Private Limited (a Mitsubishi Group company) as well as unorganised players, which limits the company's pricing power and growth prospects. While this provides a challenge to MTTL's expansion prospects, the company has focussed on niche products and increased its range of products to ensure steady growth in revenues.

Liquidity position: Strong

The company's liquidity position remains strong, supported by cash and liquid investments of ~Rs. 89 crore (as of March 31, 2022) and availability under its Rs. 12.0-crore working capital facility (as on March 31, 2022; marginal utilisation over the past one year). The liquidity sources remain more than sufficient to cover its limited capex requirements; MTTL also does not have any long-term debt repayments. Additionally, its liquidity profile draws comfort from the Rs. 19-crore Inter Company Deposits (ICDs) invested in Group companies, which are liquid in nature and can be withdrawn, as and when required.

Rating sensitivities

Positive factors – The rating may be revised upwards if the company demonstrates significant scale-up in operations while improving profitability indicators aided by diversification of its revenue profile, scale-up in new product and service offerings.

Negative factors – Any significant debt-funded capex resulting in weakening of debt servicing indicators and liquidity position of the company may result in a rating downgrade. A deterioration in the credit profile of the parent entity, or the weakening of the linkages with the parent entity, could also lead to a rating downgrade. Specific credit metrics that may result in rating downgrade include Total Debt/OPBITDA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto-component Suppliers Rating Approach – Implicit Support from Parent Group
Parent/Group support	Parent company: Samvardhana Motherson International Limited. The rating assigned to MTTL factors in the very high likelihood of its parent entity, SAMIL, extending financial support to it because of the close business linkages between them. ICRA also expects SAMIL to be willing to extend financial support to MTTL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MTTL. As on March 31, 2022, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

Motherson Techno Tools Limited is a manufacturer and supplier of performance cutting tools, which are consumed in various production processes involving cutting, milling, turning, boring, grinding and precision tool holding. The company operates through a manufacturing facility in Noida (Uttar Pradesh) and is promoted by the Samvardhana Motherson Group (75%) and Sumitomo Electric Industries Limited (25%), a company of Sumitomo Corporation. The company derives majority of its revenues from supplies to various players in the domestic automotive sector, including various OEMs and auto ancillaries. Sumitomo provides the technology as well as technical assistance through regular technology transfers to the company and has two members on MTTL's eight-member Board of Directors.

The company's products can be divided into three segments—viz., coated carbide inserts and drills; coated CBN inserts; PCD inserts, tools and reamers. From October 2015, the company started in-house production of some of the carbide tools that were earlier imported. Over the years, the company has also invested in increasing the capacity of its physical vapour deposition (PVD) line, which had aided in improving its product-mix.

Key financial indicators (audited)

MTTL Consolidated	FY2021	FY2022
Operating income	143.6	197.4
PAT	19.7	27.4
OPBDIT/OI	19.3%	23.0%
PAT/OI	13.7%	13.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.5	0.2
Interest coverage (times)	19.8	47.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023) Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Chronology of rating history for the past 3 years: Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					November 7, 2022	Sep 09, 2021	Jul 17, 2020	Apr 03, 2019
1	Cash Credit Facilities	Long term and short term	12.0	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
2	Unallocated	Long term and short term	23.0	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
3	Non-Fund Based Facilities	Long term and short term	(10.0)	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Cash Credit Facilities	Simple
Long-term/ Short -term – Unallocated	NA
Long-term/ Short -term – Non-fund Based Facilities	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 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	Cash Credit Facilities	NA	NA	NA	12.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	23.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Non-fund Based Facilities	NA	NA	NA	(10.00)	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	MTTL Ownership	Consolidation Approach
Motherson Techno Tools Limited	Rated entity	Full Consolidation
Motherson Techno Tools Mideast (FZE)	100.00%	Full Consolidation

Source: MTTL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (MTTL), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

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