April 04, 2023

MTAR Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/ CC	63.00	63.00	[ICRA]A (Stable); reaffirmed
Long-term fund-based TL	110.80	110.80	[ICRA]A (Stable); reaffirmed
Long-term/Short-term – Non-fund based	110.00	110.00	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Long-term unallocated	1.20	1.20	[ICRA]A (Stable); reaffirmed
Total	**285.00**	**285.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to draw comfort from the extensive experience of the promoters and the company's track record in the precision engineering industry, which caters to various segments, including clean energy, nuclear, space, aerospace and defence. Also, the established relationship with renowned clients, including the Indian Space Research Organisation (ISRO), Bloom Energy Corporation (Bloom), Nuclear Power Corporation of India (NPCIL) and Defence Research and Development Laboratory (DRDL), has ensured repeat orders from its customers over the years. Further, the company is adding new products to its portfolio and adding new clients in all the segments, both of which are expected to augment the revenues. Moreover, as MTL has a strong technical capability and is the sole supplier for several products, it faces restricted competition.

The ratings also take in to account the healthy financial risk profile, led by strong earnings growth in FY2022 and 9M FY2023 and healthy profit margins along with a comfortable capital structure and debt protection metrics. The company's revenue grew 31% in FY2022 and 69% in 9M FY2023 on YoY and the growth momentum is expected to continue in the near term, supported by a strong order book position of ~Rs. 1,183 crore as of December 2022 and new orders in the pipeline from domestic and international clients.

The ratings, however, are constrained by high customer concentration as the company derives a major share of its revenues from one client i.e., Bloom Energy Corporation. Further, the ratings consider the company's working capital-intensive operations owing to the long production and receivable cycle inherent to the industry. The ratings also consider the vulnerability of its margins to the fluctuations in forex rates to the extent of the unhedged position and the margins vary, depending on the segment and customer mix.

The Stable outlook reflects ICRA's expectations that the company would continue to maintain its credit profile with an improvement in revenue, profit margins and overall liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in engineering industry – MTL, Established in 1970, draws comfort from the vast experience of its promoters and has developed strong in-house R&D capabilities over the years. The company has an established presence in the engineering industry, which caters to varied segments, including clean energy, nuclear power, space, aerospace and defence. MTL is the key supplier of several products to its clients, indicating its expertise in manufacturing niche and quality products, which limits competition. The company has a renowned client base, including reputed players such as Bloom Energy Corporation, Indian Space Research Organisation (ISRO), Nuclear Power Corporation of India (NPCIL) and Defence Research and Development Laboratory (DRDL). It has established relationship with its customers and has been receiving repeat orders from its clients.

Strong order book position – The company has an unexecuted order book of Rs. 1,183 crore as of December 2022, which provides revenue visibility for the near to medium term. Further, the company expects to receive large incremental orders over the next 12 months. The company is adding new products to its portfolio and acquiring clients in various segments, which are expected to augment the revenues, going forward. Further, 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.

Healthy growth in earnings and debt protection metrics – The company's operating income (OI) witnessed a healthy growth of 31% in FY2022 and 69% in 9M FY2023 YoY on the back of a growing order book and timely execution. The revenue growth is expected to remain robust in the medium term, given its healthy unexecuted order book. Also, its operating margin has remained healthy at ~29% in FY2022 and ~28% in 9M FY2023 and remain at similar levels, going forward.
Further, the company has incurred a debt-funded capex of over FY2022-FY2023 to set up a new sheet metal & specialised fabrication plant, which is expected to enhance the company's overall execution capability, expand the order book and boost sales growth. The company's capital structure remained comfortable with a gearing of 0.2 times and TOL/TNW of 0.4 times as on March 31, 2022. Going forward, the capital structure and coverage metrics are expected to remain healthy with an estimated TOL/TNW of 0.6 times, interest coverage of 10.8 times and TD/OPBDITA of 1.2 times for FY2023 end.

Credit challenges

High customer concentration risk – The company's scale of operations remained moderate, with revenues at Rs. 322 crore in FY2022 and Rs. 377crore in 9M FY2023. However, the revenue has improved significantly over the last few years and is expected to grow at a healthy pace. The company has high customer concentration — it derived more than 65% of its revenues from a single customer, Bloom Energy Corporation. The overall client profile comprises reputed players with repeat orders received over the years, largely mitigating the counterparty credit risk. A healthy order inflow from domestic clients in the nuclear and space segments and new client acquisition are crucial in reducing the concentration risk over the medium term.

Working capital-intensive operations – The company's operations are working capital intensive. Its working capital intensity increased to ~74-78% in FY2022 and 9M FY2023 from 53% in FY2021 due to the increase in debtor and inventory days. The company extends a credit period of up to 120 days to its customers and receives a credit period of 30-120 days from its import suppliers (majority of the period is in transit time). As MTAR manufactures products with a long cycle, the inventory levels remain high. Further, the sharp increase in the inventory levels in the recent past is attributable to the additional stocking of raw materials to avoid any supply disruption as the company partly imports raw materials. The overall working capital intensity is expected to remain high in the near term due to a growing order book and a relatively long manufacturing cycle and lead time.

Exposure to fluctuations in forex rates – The company's margins are exposed to fluctuations in the forex rates as exports are not completely offset by raw material imports and the margins vary, depending on the segment and customer mix. However, the margins remained healthy over the past three years.

Environmental and Social Risks

Environmental considerations - As per the disclosures made by the company, its operating units are compliant with all the environmental regulations and various statutory approvals/ permits granted by the authorities. Also, the company's emissions/

waste generated in FY2022 were within the regulatory limits defined by the State Pollution Control Board. The company has been taking steps to reduce its carbon footprint, by enhancing its reliance on renewable sources for the power. Over the years MTL has strategized to grow in the clean energy segment significantly to manufacture climate positive products with majority of revenue (72% of total revenue in FY2022) is derived from clean energy segment including civil nuclear power and fuel cells.

Social considerations – MTAR, like most capital goods suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption free operations for the entity. MTL's facilities at Unit 2 and EOU have been certified for ISO 45001:2018 Occupational Health and Safety. MTL's annual reports indicate that the entity has been taking initiatives to support its employees/vendors in upgrading their operations, skills, quality, and technology. Another social risk that MTL faces pertains to product safety and quality, wherein instances of product recalls may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, MTL's strong track record in catering to leading players in the industry underscore its ability to mitigate these risks to an extent. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

The company's liquidity position is adequate with average working capital utilisation of 51% in the 14 months ended December 2022. The liquidity will be further supported by the proposed increase in fund-based working capital limits from Rs. 100 crore to ~Rs. 200-225 crore. As on December 31, 2022, the company has free cash and liquid investments of Rs. 62.3 crore. Moreover, the anticipated annual cash flows are expected to remain healthy against a repayment obligation of ~Rs. 17.5 crore in FY2023 and Rs. 27.83 crore in FY2024.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to sustain its healthy revenue growth, aided by diversification of the customer base and improvement in in working capital cycle while maintaining healthy margins and liquidity.

Negative factors – ICRA may downgrade the ratings if any significant reduction in margins or lower-than-expected accruals, or if any stretch in the working capital cycle impacts its liquidity position, or if there is a higher-than-anticipated debt-funded capex. Specific credit metrics that may downgrade MTL's ratings include TD/OBDITA of more than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the entity. For arriving at the ratings, ICRA has consolidated the financials of MTAR and its wholly owned subsidiary MASPL.

About the company

MTL 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 was publicly listed on the exchanges in March 2021. The company has six manufacturing units, including an EOU in Hyderabad, and has recently started a new unit at 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 plants are ISO 9001:2015 and AS9100C certified. The company incorporated wholly-owned subsidiary Magnatar Aero Systems Private Limited (MASPL; a MSME Company) in FY2020 to reach out to global OEMs who either have defence deals with India or have their business operations in India; however, till date there are no operations in the subsidiary. The Company acquired Geepee Aerospace and Defence Private Limited in June 2022 (a MSME Company) and currently it operates with small scale.

Key financial indicators (audited)

MTL	FY2021	FY2022	9M FY2023 (Prov)
Operating Income (Rs. crore)	246.4	322.0	377.0
PAT (Rs. crore)	46.1	60.87	73.3
OPBDIT/OI (%)	33.8%	29.32%	27.9%
PAT/OI (%)	18.7%	18.9%	19.4%
RoCE (%)	19.4%	16.7%	22.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.4	0.7
Total Debt/OPBDIT (times)	0.2	1.0	1.4
Interest Coverage (times)	11.9	14.2	11.8
DSCR (times)	10.46	7.31	4.43

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: PBIT/Avg (Total debt + Tangible net worth + Deferred tax liability - Capital work in progress); DSCR: (PBIT + Mat credit entitlements - Fair value gains through P&L - Non-cash extraordinary gain/loss)/(Interest +Repayments made during the year).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		
					April 4, 2023	-	Jan 07, 2022	Apr 21, 2021	Dec 08, 2020	Jul 07, 2020	Jun 17, 2020
1	**Cash credit**	Long-term	35.00	-	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**Export packing credit**	Long-term	28.00	-	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
3	**Term loan**	Long-term	110.80	78.87*	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	-
4	**Bank guarantee**	Long-term/ Short-term	100.00	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A- (Positive)/ [ICRA]A2+**	**[ICRA]BBB+ (Stable) /[ICRA]A2**	**[ICRA]BBB (Stable) /[ICRA]A3+**	-
5	**Letter of credit**	Long-term/ Short-term	10.00	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A- (Positive)/ [ICRA]A2+**	**[ICRA]BBB+ (Stable) /[ICRA]A2**	**[ICRA]BBB (Stable) /[ICRA]A3+**	**[ICRA]BBB (Stable) /[ICRA]A3+**
6	**Unallocated**	Long-term	1.20	-	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**	-

*The loan is yet to be disbursed completely

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Non-fund based (BG/LC)	Very simple
Unallocated	NA

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-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]A (Stable)**
NA	Cash Credit	-	-	-	5.00	**[ICRA]A (Stable)**
NA	Export Packing Credit	-	-	-	28.00	**[ICRA]A (Stable)**
NA	Term Loan-1	Jul-2020	-	Mar-2026	30.80	**[ICRA]A (Stable)**
NA	Term Loan-2	Sep-2021	-	Sep-2026	80.00	**[ICRA]A (Stable)**
NA	Bank Guarantee	-	-	-	100.00	**[ICRA]A (Stable)/ [ICRA]A1**
NA	Letter of Credit	-	-	-	10.00	**[ICRA]A (Stable)/ [ICRA]A1**
NA	Unallocated	-	-	-	1.20	**[ICRA]A (Stable)**

Source: *MTL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	MTAR ownership	Consolidation Approach
MTAR Technologies Limited	Rated entity	Full Consolidation
Magnatar Aero Systems Private Limited	100%	Full Consolidation

Source: *MTAR's shareholding pattern ending March 31, 2022*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Rishi S Tekchandani
+91 79 4027 1519
rishi.tekchandani@icraindia.com

Kaladi Rithvik
+91 95 9993 1097
kaladi.rithvik@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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