December 14, 2023

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 – Cash Credit Facilities	12.00	12.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated Limits	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 the steady operational performance of the company, aided by its strong parentage, with the company being a joint venture between Samvardhana Motherson International Limited (SAMIL; rated [ICRA]A1+; flagship entity of Samvardhana Motherson Group (SMG) with 75% holding) and Sumitomo Electric Industries Limited (SEIL; rated A2, Negative by Moody's; a Sumitomo Group company with 25% holding). While the company benefits from the healthy financial flexibility as part of SMG, it also continues to enjoy access to technical assistance for product development activities from SEIL. The support from its parent entities provides comfort regarding the company's ability to continue to generate healthy cash flows, going forward.

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. It 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 FY2023 with revenues of ~Rs. 247 crore in FY2023 at a consolidated level, a growth of ~25% over FY2022. The company's profitability metrics, however, moderated marginally due to higher raw material costs (OPBDITA margin of ~20% in FY2023 over ~23% in FY2022). 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 remain constrained by MTTL's modest scale of operations, while its demand prospects remain exposed to any challenges faced by the automotive industry, which still generates most of its revenues. Moreover, the performance cutting tool industry remains highly competitive in nature. Despite the same, however, the company's foray into two new segments—namely, the steel industry and electronics products—should help augment its revenue growth prospects and partially mitigate the risks.

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 CBN and PCD tools segment, with an estimated market share of ~25%. The company benefits from its access to SEIL's technical assistance for product development, aiding in its ability to provide for a wide range of value-added products. MTTL has regularly invested in capacity expansion, including its in-house manufacturing capabilities with the help of SEIL. This has resulted in a gradual increase in the share of its manufactured products to net sales over the years.

Access to financial support from parent entities – MTTL is promoted by SMG, which holds a 75% stake in the company, mainly through SAMIL, the key holding entity of the group. The remaining 25% stake in the entity is held by SEIL. Apart from operational benefits, MTTL enjoys access to financial support from its parent group, which is likely to help maintain its robust credit profile and strong financial flexibility.

Healthy financial risk profile – The company's dependence on bank borrowings has remained negligible over the past several years. Additionally, it continues to maintain healthy cash reserves on its books, thereby strengthening its financial risk profile. As on March 31, 2023, the company's total debt outstanding of ~Rs. 48 crore entirely comprised operating lease liabilities, resulting in gearing ratio of ~0.3 and Total Debt/OPBITDA of ~1.0. Going forward, MTTL's leverage and coverage indicators are anticipated to remain healthy, owing to no scheduled debt repayments and expectation of no major debt-funded capex outlay.

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. 247 crore in FY2023. Although MTTL 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 ~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, it has successfully focussed on niche products and continually increased its product range to ensure steady growth in revenues.

Liquidity position: Strong

The company's liquidity position remains strong, supported by cash and liquid investments of ~Rs. 110 crore (as of March 31, 2023) and availability under its Rs. 12.0-crore working capital facility (as on March 31, 2023; marginal utilisation over the past year). The liquidity sources remain more than sufficient to cover its limited capex requirements. Also, MTTL does not have any long-term debt repayments. Additionally, its liquidity profile draws comfort from the Rs. 10-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 weakening of linkages with the parent, 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 Components
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, 2023, the company had one subsidiary, which is enlisted in Annexure-II.

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 most of its revenues from supplies to various players in the domestic automotive sector, including various Original Equipment Manufacturers (OEMs) and auto ancillaries. SEIL 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 are categorised into three segments—viz., coated carbide inserts and drills; coated CBN inserts; and 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 has aided in improving its product mix.

Key financial indicators (audited)

MTTL Consolidated	FY2022	FY2023
Operating income	197.4	247.3
PAT	27.4	38.8
OPBDIT/OI	23.0%	20.4%
PAT/OI	13.9%	15.7%
Total outside liabilities/Tangible net worth (times)	0.3	0.5
Total debt/OPBDIT (times)	0.2	1.0
Interest coverage (times)	47.5	92.9

Source: ICRA Research, Company Annual Reports. All ratios as per ICRA 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 14, 2023	Nov 07, 2022	Sep 09, 2021	Jul 17, 2020
1	**Cash Credit**	Long term and short term	12.00	--	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**
2	**Unallocated Limits**	Long term and short term	23.00	--	**[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	(10.00)	--	**[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	Simple
Long-term/ Short -term – Unallocated Limits	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**	NA	NA	NA	12.0	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	23.0	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	**Non-fund Based Facilities**	NA	NA	NA	(10.0)	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

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

Source: Company Annual Report

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Debadrita Mukherjee
+91 124 4545 394
debadrita.mukherjee@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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.

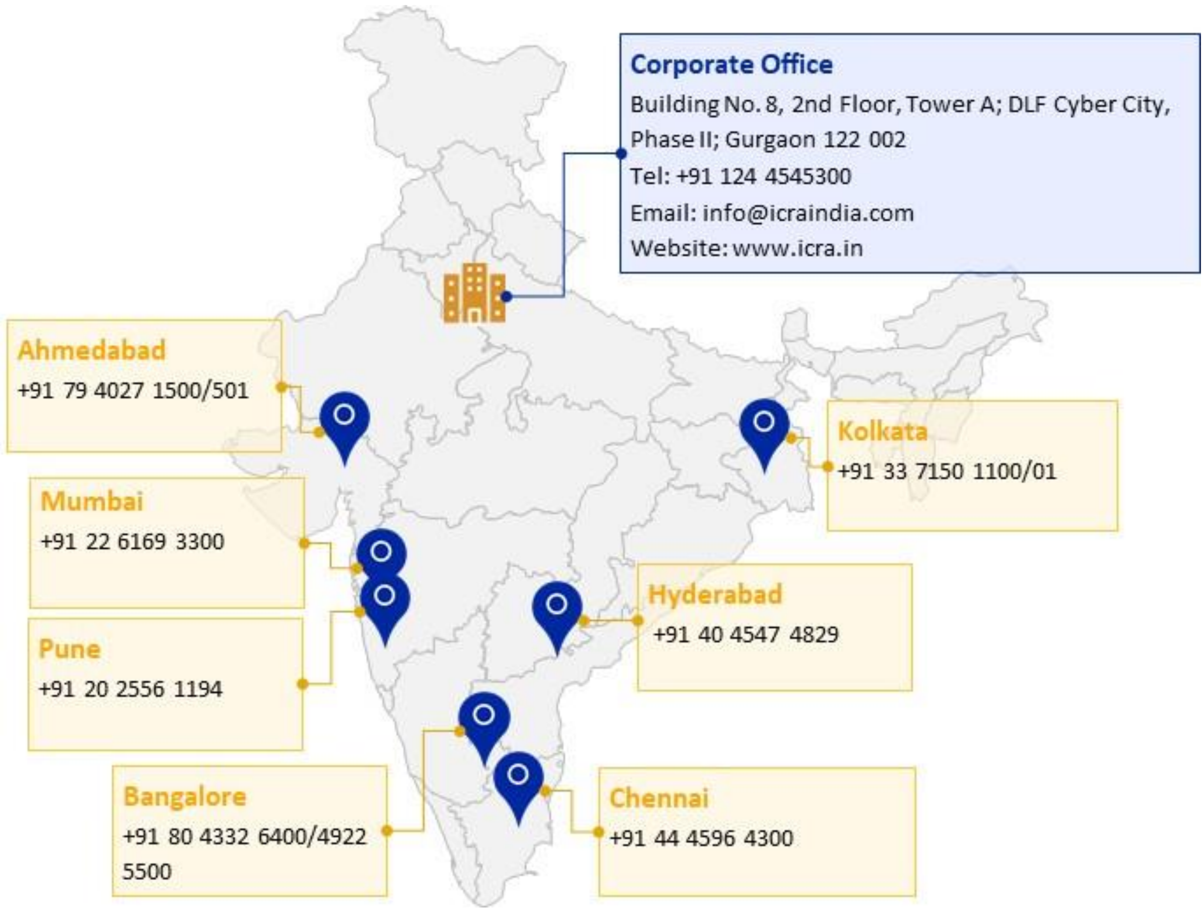
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.