

August 30, 2024

Mazda Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits	0.50	0.50	[ICRA]A (Stable); reaffirmed
Long-term/Short-term – Non-fund based limits	30.38	30.38	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	30.88	30.88	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings continues to take into account Mazda Limited's (ML) established position in the vacuum and evaporator system manufacturing business and its established relationship with a reputed clientele, ensuring repeat orders. The ratings favourably consider the company's steady profitability, comfortable capital structure and debt coverage indicators, limited external debt and a strong liquidity position, evident from the considerable liquid investments (Rs. 75.38 crore as on March 31, 2024) and cushion in working capital limits.

The ratings, however, remain constrained by the company's relatively modest scale of operations with revenues remaining in the range of Rs. 150-250 crore in the last five years. This is because the order inflow depends on the capex cycle of the end-user industry even as the management has diversified into the food business.

The ratings continue to be constrained by the working capital-intensive business, the susceptibility of its profitability margins to growing competition in the industry and the adverse fluctuation in raw material prices. ICRA notes that with the expansion of the food division, the company's ability to scale up its operations and achieve the desired operating parameters remains crucial.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that ML's revenues and accruals will be supported by its comfortable order inflow. Also, the company will continue to benefit from its established track record in the engineering segment.

Key rating drivers and their description

Credit strengths

Established position in vacuum and evaporator systems manufacturing – The company is one of the leading players in the vacuum and evaporator system market and has an established track record spanning over 30 years with a history of repeat orders from reputed customers. This, coupled with continuous R&D capabilities, imparts significant operating flexibility to adapt to the changing market conditions.

Healthy capital structure and coverage indicators with strong liquidity position – The company's capital structure remained robust with a healthy net worth base (Rs. 212.24 crore as on March 31, 2024) and no debt requirements. The coverage indicators remain healthy, given its no debt and marginal interest outgo, with interest coverage of 73.26 times as on March 31, 2024. Its liquidity position is healthy, supported by undrawn line of credit and cash and investments of Rs. 89.69 crore as on March 31, 2024.

Reputed clientele and long-tenured relations along with track record of repeat business – The clientele of the company includes reputed names such as Siemens Limited, SRF Limited, Triveni Turbine Limited, Lupin Limited, Vedanta Limited etc, with moderate customer concentration and ensures repeat orders.

Credit challenges

Range-bound scale of operations – The company's operating income has remained in the range of Rs. 150-250 crore in the last five years. It reported revenues of Rs. 225.43 crore in FY2024, a growth of 18% compared to the previous year. The food division contributes 10-20% of the total revenue. Nevertheless, the company is expected to ramp up its operations in the food division in the current fiscal, supported by capacity expansion. Moreover, the revenues were impacted in Q1 due to public and private capex slowdown owing to the General Elections.

Working capital-intensive business – The company's financial risk profile is marked by high working capital intensity with NWC/OI at 22% as on March 31, 2024, owing to the high inventory holding for its existing and new orders. Its liquidity profile remains robust with unencumbered cash balance and liquid investments and almost nil utilisation of cash credit limits. However, a better management of the inventory holding, which keeps the working capital cycle under check, will be a key rating sensitivity.

Intense competition and adverse fluctuation in raw material prices limits margin expansion – The market for industrial vacuum systems and evaporators remains fragmented and the company faces stiff competition from established players. However, the number of preferred manufacturers for high-end project use remains limited and ML is able to shield itself from domestic competition to some extent because of its established credentials and ability to provide customised products. Further, its margins are susceptible to the adverse variation in commodity prices such as steel as most of the orders are fixed cost in nature, which puts pressure on the margins at times.

Liquidity position: Strong

ML has a strong liquidity profile, supported by healthy cash accruals and sizeable unencumbered cash balance and liquid investments of Rs. 89.48 crore as of March 2024 and no debt repayments.

Rating sensitivities

Positive factors – ICRA could upgrade ML's rating if the company demonstrates a significant improvement in its scale of operations and profitability on a sustained basis, along with an improvement in the working capital cycle.

Negative factors – Pressure on ML's rating could arise if there is a decline in the scale of operations, along with a moderation in profitability and further stretch in the working capital cycle. Further, a higher-than-expected capital expenditure that significantly impacts the liquidity may lead to a downgrade.

Environmental and Social Risks

Environmental risks - The company is exposed to the risk of tightening regulations on environment, specifically pertaining to its raw material sourcing, operations and energy consumption. Given the safety and environment-related concerns associated with the industry, the company is exposed to the risk of tightening regulatory norms for production, water management and emission/waste management. While the company has a demonstrated track record of running its operations safely, the nature of the risk weighs on its rating.

Social risks – Social risk in this industry stems from the health and safety concerns of the employees involved in the manufacturing process. Entities like ML are also exposed to labour-related risks and the risks of protests/social issues with local communities, which could impact its operations. Though these issues have not hindered ML's operations in the past, lack of sensitivity in managing these risks could result in cost overruns.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Mazda Limited (ML) was originally incorporated as Mazda Controls Private Limited in 1990. It is an Ahmedabad-based listed company promoted by Mr. Sorab R. Mody. It started its business with the manufacturing of valves, and over a period of time expanded its product portfolio to include vacuum systems, evaporator systems and other engineering products such as heaters, condensers, thermo compressors and pollution control equipment. In Q1 FY2011, the company sold its valves division to Circor. In FY2007, ML ventured into producing food products, such as energy drinks and soft drink concentrates, under the brand name of BCool and has been increasing its focus on the food division. It has five manufacturing facilities in Ahmedabad, Gujarat.

In FY2024, the company reported a net profit of Rs. 31.52 crore on an operating income (OI) of Rs. 225.43 crore against a net profit of Rs. 26.63 crore on an OI of Rs. 191.52 crore in the previous year.

Key financial indicators (Audited/Result)

	FY2023	FY2024	Q1FY2025*
Operating income	191.52	225.43	36.17
PAT	26.63	31.52	2.90
OPBDIT/OI	19.61%	17.67%	4.75%
PAT/OI	13.90%	13.98%	8.01%
Total outside liabilities/Tangible net worth (times)	0.21	0.13	-
Total debt/OPBDIT (times)	0.02	0.00	-
Interest coverage (times)	59.68	73.26	11.44

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Result

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
EPC/PCFC	Long Term	0.50	30-Aug-24	[ICRA]A (Stable)	30-Jun-23	[ICRA]A (Stable)	07-Apr-22	[ICRA]A (Stable)	-	-
Bank guarantee	Long term /short term	30.00	30-Aug-24	[ICRA]A (Stable)/ [ICRA]A1	30-Jun-23	[ICRA]A (Stable)/ [ICRA]A1	07-Apr-22	[ICRA]A (Stable)/ [ICRA]A1	-	-
Foreign currency exposure	Long term /short term	0.38	30-Aug-24	[ICRA]A (Stable)/ [ICRA]A1	30-Jun-23	[ICRA]A (Stable)/ [ICRA]A1	07-Apr-22	[ICRA]A (Stable)/ [ICRA]A1	-	-
Unallocated limits	Long term /short term	-	-	-	-	-	07-Apr-22	[ICRA]A (Stable)/ [ICRA]A1	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based limits	Simple
Long-term/Short-term – Non-fund based limits	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	EPC/PCFC	NA	NA	NA	0.50	[ICRA]A (Stable)
NA	Bank guarantee	NA	NA	NA	30.00	[ICRA]A (Stable)/[ICRA]A1
NA	Foreign currency exposure	NA	NA	NA	0.38	[ICRA]A (Stable)/[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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