September 16, 2024

Menon and Menon Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund Based Facilities	15.00	15.00	[ICRA]A2; reaffirmed
Long term – Fund Based – Term Loan	47.41	34.87	[ICRA]BBB+(Stable); reaffirmed
Long term/Short term – Working capital facilities	20.00	20.00	[ICRA]BBB+(Stable) /[ICRA]A2; reaffirmed
Total	**82.41**	**69.87**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings of Menon and Menon Limited (MML) factor in its promoter's track record of experience in the auto-component manufacturing business, and its established position as a leading supplier of components such as cylinder heads and blocks to major original equipment manufacturers (OEMs) such as John Deere India (John Deere), Mahindra & Mahindra Ltd. (M&M; rated [ICRA]AAA/Stable/ A1+), Tata Motors Ltd. (TML; rated [ICRA]AA+/Stable/ A1+), International Tractors Ltd. (ITL; rated [ICRA]AAA/Stable/ A1+), TAFE, SAME Deutz (SAME; rated [ICRA]A+/Stable/ A1) and Ashok Leyland Ltd. (ALL; rated [ICRA]AA/Stable/ A1+). The ratings also factor in the company's comfortable financial risk profile and improving trend in credit metrics with total debt/OPBITDA of 0.9 times and interest cover of 14.8 times in FY2024 (as per provisional financials) against 2.5 times and 4.6 times, respectively, in FY2021. Although the company would be undertaking some debt-funded capex over the near term, for setting up additional capacity, MML is expected to continue to report healthy credit metrics, supported by stable cash accruals from operations.

The ratings, however, remain constrained by the high segmental concentration of MML's revenues, with ~80% of its revenues coming from the domestic tractor and commercial vehicle (CV) markets, exposing it to the inherent cyclicality of these sectors. ICRA notes that MML has been expanding its exports businesses and has products in validation for the utility vehicles segment. However, the traction of the business in the medium-to-long term would remain a key point to monitor. Additionally, the company's earnings are exposed to raw material price fluctuation risk, although the same is mitigated to some extent by the pricing agreements in place with its customers. As its entire revenues are derived from the supply of engine components, its business is subject to risks arising from the impending electrification in the automotive market. Although electrification is likely to be gradual in the segments that it is present in, MML's ability to evolve its product profile and remain relevant as electrification penetration increases, would remain critical. While there has been some return of capital to the promoters through some share buybacks over the years, the capital structure continues to remain strong. Nonetheless, any excess withdrawal will remain a monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will capitalise on the established relationships with its customers and its proven experience in the auto component business. ICRA also notes that MML is likely to sustain its strong operational performance and comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Established track record of promoters in the auto ancillary business – MML was established in 1969 by Mr. Chandran Menon. Later, his son, Mr. Vijay Menon took over the operations, and since 2014, he has been assisted by Ms. Divya Menon, the third generation of the promoter family. With more than 40 years of industry experience, the promoters have an established track record of operations in the auto-component manufacturing space, and has forged strong relationships with its key customers, supporting its business prospects.

Established market position and healthy share of business with key customers – MML enjoys a long association with established players in the industry such as John Deere India, M&M, TML, ITL, TAFE, SAME, etc., across automotive segments like medium and heavy commercial vehicles (M&HCV), pick-up trucks and tractors. Overall, on an average, 60-65% of MML's business is for products where it is a single source supplier, which provides additional comfort regarding client retention and revenue visibility.

Comfortable capital structure and debt-protection metrics – MML's capital structure remains comfortable with a gearing of 0.5 times as on March 31, 2024, Total debt/OPBITDA of 0.9 times and interest coverage ratio of 14.8 times in FY2024, as per provisional financials. Despite some expected addition in debt levels for capex planned over the near term, MML is likely to continue to report healthy credit metrics, supported by healthy cash accruals from operations.

Credit challenges

Concentration risks arising from dependence on tractor and CV sectors, which are cyclical in nature – MML generated the major portion of its revenue from the tractor and the CV segments, which exposes its revenues to the inherent cyclicality in these industries. Given such dependence, the company's revenues declined sharply in FY2020 and recorded a modest growth in FY2021, amid slowdown in these sectors. However, with strong demand from the underlying industries, the company reported a healthy revenue growth of 36% in FY2022, which continued in FY2023. Despite a slight fall in revenue in FY2024, the operational profile of MML remains comfortable, with the company's operating profitability improving to 12.1% in FY2024 (from 9.7% in FY2023).

Exposed to raw material price fluctuation risk – MML's total raw material cost constitutes more than 50% of its operating costs with the key raw material being iron. The prices of iron move in tandem with the commodity cycle and hence, are subject to fluctuations. While MML has price reimbursement agreements in place with its key customers, which enable it to pass on price fluctuations to its end-customers to a large extent, its ability to manage price negotiations with larger customers to protect its margins in future will remain important for maintaining a healthy credit profile.

Presence in engine components exposes it to risks from evolving regulations in the automotive industry – MML manufactures cylinder heads and blocks used in engines for segments like M&HCVs, pickup trucks and tractors. The automotive industry is subject to evolving norms that require the company to incur additional capex to modify its manufacturing lines accordingly. Additionally, with the pace of electrification gradually gaining momentum in the domestic automotive market, MML as a supplier of engines components remains vulnerable to the risks arising from this paradigm shift in the industry. Although electrification in the domestic CV and tractor markets would be gradual, the company's ability to adapt itself to changing customer preferences, in a timely manner, would remain critical.

Liquidity position: Adequate

MML's liquidity is adequate owing to healthy cash accruals of Rs. 40-60 crore annually, which are sufficient to cover its debt repayment obligations of Rs. 2-15 crore annually in the near-to-medium term. The company also had fixed deposits of ~Rs. 65 crore as on March 31, 2024. Against this, the company plans to incur a capex of Rs. 140-150 crore during FY2025 to FY2026, largely towards capacity expansion, which would be funded from sanctioned term debt and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade MML's ratings if there is substantial improvement in scale and profitability resulting in strengthening of net worth position while maintaining a healthy liquidity profile.

Negative factors – Negative pressure on MML's ratings could arise if there is a material decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Significant debt-funded capex or deterioration in working capital cycle, impacting the company's credit metrics and liquidity position with TOL/TNW weakening to above 2.0 times on a sustained basis could also be a trigger for a rating downgrade. Also, any large dividend pay-outs or share buybacks weakening the net worth position will also be a downgrade trigger.

Analytical approach

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

About the company

Menon and Menon Limited was established in 1969 to manufacture grey iron cylinder blocks and cylinder heads, catering to the demand of tractors and light commercial vehicles (LCV) in the automotive sector. MML's product portfolio includes cylinder blocks and head castings, water jacketed and non-water jacketed blocks and other castings. MML has two foundry units at Kagal and Kolhapur (Maharashtra) and a machine shop at Kolhapur (Maharashtra). The Kolhapur unit includes a foundry (production capacity of ~2,600 MT/month), a machining shop (with vertical machining centres and horizontal machining centres) as well as a paint shop. The Kagal unit comprises a foundry (production capacity of ~2,700 MT/month). The company primarily caters to customers like John Deere, SAME Deutz Tractors, Tata Motors, etc., spread across the tractor and CV spaces.

Key financial indicators

Standalone	FY2023 (audited)	FY2024 (provisional)
Operating income	672.1	649.7
PAT	9.2	23.8
OPBDIT/OI	9.7%	12.1%
PAT/OI	1.4%	3.7%
Total outside liabilities/Tangible net worth (times)	1.5	1.1
Total debt/OPBDIT (times)	1.3	0.9
Interest coverage (times)	10.5	14.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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 (FY2025) Type	Amount rated (Rs. crore)	Date & rating in FY2025	Chronology of rating history for the past 3 years: Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Sep 16, 2024	22-Aug-23	06-Jul-23	-	-
1	Non-Fund based facilities	Short term	15.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	-
2	Unallocated Limits	Long term/ short term	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-
3	Fund Based - Term Loan	Long term	34.87	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-		
4	Fund based facilities	Long term/ short term	20.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Non-fund Based Facilities	Very Simple
Long term – Fund Based – Term Loan	Simple
Long term/Short term – Fund Based Facilities	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	**Non-fund-based facilities**	NA	NA	NA	15.00	[ICRA]A2
NA	**Fund Based – Term Loan**	FY2020 & FY2022	9-10%	FY2027 – FY2034	34.87	[ICRA]BBB+ (Stable)
NA	**Fund Based Facilities**	NA	NA	NA	20.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Sahil Jogesh Udani
+91 22 6114 3469
sahil.udani@icraindia.com

Aman Mundhada
+91 22 6114 3451
aman.mundhada@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