October 24, 2024

Mohindra Fasteners Limited: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ Cash credit	19.00	25.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Short Term - Non-Fund-Based	20.00	20.00	[ICRA]A2; upgraded from [ICRA]A3+
Long Term - Fund Based – Term loans	21.00	15.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade factors in the sustained strong financial profile of Mohindra Fasteners Limited (MFL), supported by its healthy profit margin, led by increased focus on specialised fasteners as well as limited dependence on debt. The share of specialised fasteners within the total revenue mix stood at ~60% in FY2024 and is expected to increase, going forward. Led by healthy profits, MFL's dependence on debt has remained limited, which has translated into a healthy financial profile.

The ratings continue to derive comfort from MFL's established and diversified customer base across various end-user industries with the company now focusing on direct selling to its customers, thus saving on commission charges. The ratings favourably factor in the promoters' extensive experience and MFL's established position as a supplier of fasteners in the global and domestic markets.

The ratings, however, continue to remain constrained by MFL's relatively modest scale of operations that limits its economies of scale. MFL reported a modest 3% YoY revenue growth in FY2024 due to muted demand in the export markets. This trend continued in H1 FY2025 due to which revenues are estimated to have declined in the said period on a YoY basis. ICRA notes the healthy order book position of the company, which stood at Rs. 50 crore as on September 30, 2024, expected to be executed over the next three-four months. MFL has also started catering to the aftermarket segment from H2 FY2025, which will contribute to the revenues further. The company will start operations of its increased capacity from Q3 FY2025, which will support its revenues over the medium term. This remains a key monitorable. The ratings also consider the vulnerability of its profitability to any adverse currency fluctuations, given the export dominated revenue profile of MFL and absence of any hedging followed by the company. The profit margins also remain exposed to variation in steel prices and other input costs, though order-backed raw material procurement for most of its orders mitigates the risk to some extent. The ratings also factor in MFL's working capital intensive nature of operations mainly due to large inventory holding and high credit period offered to the customers.

The Stable outlook on the long-term rating reflects ICRA's opinion that the credit profile of MFL will remain comfortable, supported by healthy profit margins and absence of any large debt-funded capital expenditure (capex) plans.

Key rating drivers and their description

Credit strengths

Experienced management – The operations of the company are managed by Deepak Arnnejaa and Anurag Arneja. The promoters have been involved in the fastener manufacturing industry for more than two decades.

Fairly diversified customer profile across geographies – MFL has been supplying to reputed original equipment manufacturers (OEMs) in the domestic market, such as Hero MotoCorp Limited with which it enjoys repeat business. Moreover, it has long associations with its overseas customers, mainly distributors that liaison with end-users as well as tier-I vendors for OEMs. The company enjoys a moderately diversified customer base in both the domestic and the export markets with its top five clients accounting for less than 50% of its overall sales in FY2024.

Comfortable financial risk profile – MFL has a comfortable financial risk profile, reflected by its healthy profit margins and debt coverage metrics. The operating profit margin of MFL stood at 15.1% in FY2024, supported by high share of specialised fasteners within the total revenue mix. The same stood at ~60% in FY2024 and is expected to increase, going forward. Led by healthy profits and controlled working capital intensity of operations, MFL's dependance on debt has remained limited, which has translated into a healthy financial profile. The capital structure of the company remained comfortable with a gearing of 0.3 times as on March 31, 2024 and total outside liabilities vis-à-vis the tangible net worth of 0.6 times as on March 31, 2024. Moreover, debt coverage indicators remained comfortable with an interest coverage of 8.8 times in FY2024 and total debt vis-à-vis the operating profit before depreciation, interest and tax of 1.4 times as on March 31, 2024

Credit challenges

Modest scale of operations – With revenues of Rs. 177.5 crore in FY2024, MFL's scale of operations remains modest, which limits its economies of scale. MFL reported a modest 3% YoY revenue growth in FY2024 due to muted demand in the export markets. This has continued in H1 FY2025 as well, due to which revenues are estimated to have declined during the said period on a YoY basis. ICRA notes the healthy order book position of the company at Rs. 50 crore as on September 30, 2024, which is expected to be executed over the next three-four months. MFL has also started catering to the aftermarket segment from H2 FY2025, which will additionally contribute to the revenues. The company will start operations of its increased capacity from Q3 FY2025, which will support its revenues over the medium term. This remains a key monitorable. Moreover, the company operates in a highly fragmented industry, characterised by intense competition, given the low entry barriers in the industry for fasteners. Nonetheless, MFL's increasing focus on specialised fasteners provides some comfort.

Working capital intensive nature of operations – MFL's operations remain working capital intensive owing to high inventory levels and credit offered to export clients. As the company's product portfolio comprises a wide variety of fasteners, its inventory requirement remains high. The credit period varies for different customers, which is generally in the range of 30-45 days. The company does not receive any advance for most of its orders.

Profitability exposed to fluctuations in steel prices and foreign exchange rates – The price of steel, the key raw material, moves in tandem with the commodity cycle and hence is subject to fluctuations, though order-backed raw material procurement for most of the orders mitigates the risk to some extent. In the absence of price variation clauses in its contracts, MFL's ability to pass on any price hike to its customers remains limited. As a result, MFL continues to be exposed to adverse variation in raw material prices. Further, with no formal hedging policy in place, the company's profitability is vulnerable to any significant fluctuation in forex rates, given its export dominated revenues.

Liquidity position: Adequate

MFL's liquidity is adequate, characterised by unencumbered cash and fixed deposits of Rs. 34 crore as on September 30, 2024. The average utilisation of bank-sanctioned working capital limits stood at 60% for the last 12-month period that ended in March 2024. MFL is undertaking capex of Rs. 13 crore in FY2024 towards purchase of machinery and addition of a new line, which is being funded by a term loan of Rs. 7 crore (already sanctioned) and the rest by internal accruals. The company is expected to generate healthy cash flows, which along with the existing available liquidity would be sufficient to meet its funding requirements and repayment obligations of Rs. 3.4 crore in FY2025 and Rs. 4.8 crore in FY2026. The company has already prepaid one of its term loans (outstanding amount of Rs. 4.8 crore as on March 31, 2024) in Q1 FY2025.

Rating sensitivities

Positive factors – A sustained improvement in the business risk profile, characterised by expansion in the product portfolio and significant scale up in operations, while maintaining profitability, credit metrics and liquidity profile at the current healthy levels would be critical for an upward rating revision.

Negative factors – Downward pressure on MFL's ratings could arise if revenues and margins decline, resulting in weak operating metrics. Significant debt-funded capex weakening the debt servicing indicators and liquidity position, or total debt/OPBDITA deteriorating to above 2.4 times, on a sustained basis, may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MFL as detailed in Annexure II.

About the company

Incorporated in 1995, MFL manufactures high-tensile fasteners for the automobile industry and industrial applications. It manufactures various types of hot and cold-forged fasteners, i.e., screws, studs and bolts, etc, at its three manufacturing facilities at Rohtak (Haryana). The company is listed on the Metropolitan Stock Exchange.

Key financial indicators (audited)

MFL Consolidated	FY2023	FY2024
Operating income	172.1	177.5
PAT	15.3	15.9
OPBDIT/OI	13.2%	15.1%
PAT/OI	8.9%	9.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	1.6	1.4
Interest coverage (times)	11.4	8.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore 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	Amount Rated (Rs Crore)	Current (FY2025) Oct 24, 2024	FY2025 Date	FY2025 Rating	FY2024 Date	FY2024 Rating	FY2023 Date	FY2023 Rating	FY2022 Date	FY2022 Rating
Long term-term loan-fund based	Long Term	15.00	[ICRA]BBB+ (Stable)	11-JUL-2024	[ICRA]BBB (Stable)	06-APR-2023	[ICRA]BBB (Stable)	-	-	-	-
				-	-	05-JAN-2024	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	-	-	-	-
Short term-others-non fund based	Short Term	20.00	[ICRA]A2	11-JUL-2024	[ICRA]A3+	06-APR-2023	[ICRA]A3+	29-SEP-2022	[ICRA]A3+	11-OCT-2021	[ICRA]A3+
				-	-	05-JAN-2024	[ICRA]A3+ ISSUER NOT COOPERATING	-	-	-	-
Long term-cash credit-fund based	Long Term	25.00	[ICRA]BBB+ (Stable)	11-JUL-2024	[ICRA]BBB (Stable)	06-APR-2023	[ICRA]BBB (Stable)	29-SEP-2022	[ICRA]BBB (Stable)	11-OCT-2021	[ICRA]BBB (Stable)
				-	-	05-JAN-2024	[ICRA]BBB (Stable) ISSUER NOT COOPERATING	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Cash Credit	Simple
Short-term - Non-fund-based - Letter of Credit	Very simple
Long-term – Fund-based - Term Loans	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	**Long-term – Fund-based - Cash Credit**	NA	NA	NA	25.0	[ICRA]BBB+ (Stable)
NA	**Short-term - Non- fund-based - Letter of Credit**	NA	NA	NA	20.00	[ICRA]A2
NA	**Long-term – Fund-based - Term Loans**	FY2023	NA	FY2029	15.0	[ICRA]BBB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	MFL Ownership	Consolidation Approach
Mohindra Fasteners Limited	100% (rated entity)	Full Consolidation
KK Mohindra Fastenings Private Limited	49%	Equity Method

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About ICRA Limited:

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