October 25, 2024

Micromatic Grinding Technologies Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	1.00	4.50	[ICRA]BBB+ (Stable); reaffirmed & assigned for enhanced amount
Long-term/Short-term – Fund based – Non-fund based ¬– Overdraft	5.00	0.00	-
Long-term/Short term– Fund based/Non-fund based	0.00	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed & assigned for enhanced amount
Short-term – Non-fund-based – Bank guarantee	11.50	11.50	[ICRA]A2; reaffirmed
Short-term – Non-fund based – Foreign letter of credit	1.00	1.00	[ICRA]A2; reaffirmed
Long-term/Short-term – Unallocated	5.50	0.00	-
Total	**24.00**	**27.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factor in the extensive experience of the promoters of Micromatic Grinding Technologies Private Limited (MGTL) and its long track record of operations in the grinding machines industry. The company is a part of the Ace Micromatic Group, and the association offers benefits such as better bargaining power with vendors and extensive marketing and after-sales services. The ratings also positively consider the company's strong financial risk profile, marked by a comfortable capital structure and robust debt coverage indicators.

Nonetheless, the ratings remain constrained by MGTL's high exposure to the cyclical automotive sector, which is the major contributor to the company's revenue. The ratings are further constrained by the company's moderate scale of operations and the stiff competition from domestic players in the standard machinery segment and from foreign players in the customised/complex machinery segment. ICRA also takes note of the vulnerability of MGTL's profitability to the adverse movements in raw material prices due to the fixed-price contracts.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will maintain its healthy credit profile in the medium term, aided by steady revenue growth, along with maintaining strong debt protection metrics and a comfortable liquidity profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters - The company has been operating in the machine tools industry since its inception as Micromatic Machines as a partnership firm in 1973. The long track record of the promoters and the company's established relationship with its customers and suppliers have helped it to scale up its operations. MGTL is a part of the Ace Micromatic Group, which has a diversified presence in the machine tools industry, with products such as computer numerical control (CNC) lathes and milling and drilling and grinding machines. The support from Group entities for marketing and after-sales services acts as a key differentiating factor for MGTL. Moreover, the strong in-house research and development (R&D) team and collaboration with JTEKT Corporation help MGTL in designing products in line with the customers' specifications along with cost efficiencies.

Reputed customer profile - The company's customer profile consists of reputed and large OEMs, and auto ancillary players, who have been generating repeat orders over the years, signifying low counterparty credit risk and adequate revenue visibility, going forward. Additionally, the company's customer profile is diversified with the top five customers contributing ~20% to the total revenue in FY2023 and FY2024.

Strong financial risk profile - The company's financial risk profile continues to be strong, marked by a comfortable capital structure and robust debt coverage indicators. This is reflected from a gearing of 0.18 times as on March 31, 2024, total debt/OBDITA of 0.95 times, interest coverage of 17.91 times and NCA/TD of 76% in FY2024. Further, the company's return indicators remain comfortable, evident from an operating profit margin (OPM) of 11.45% and RoCE of 17.33% in FY2024. ICRA expects the company's revenues and earnings to witness a steady improvement, going forward, resulting in a healthy financial risk profile.

Credit challenges

Moderate scale of operations - The company's topline remains moderate and has witnessed steady growth over the years. Its revenue stood at Rs. 183.10 crore in FY2024 against Rs. 161.74 crore in FY2023. The company's pending order book as of September 2024 was around Rs. 133.0 crore. In H1 FY2025, MGTPL recorded a revenue of Rs. 97.0 crore and expects to achieve a revenue of around Rs. 220-230 crore in FY2025, driven by increased demand for the company's products. MGTL's low value-added machinery faces intense price competition from domestic players, while its high value-added machinery has to compete with imports from China, Germany, Japan and Italy.

High dependence on the auto sector - The company derives majority of its revenue from the automotive sector, making it susceptible to sectoral cyclicality. The demand is impacted by the general economic or industry conditions. While any demand slowdown in the automotive sector can adversely impact the company's revenue (as witnessed in the past), its presence in diverse industries such as commercial vehicles, passenger vehicles, two-wheelers, three-wheelers, construction equipment, aerospace, defence, and general engineering should mitigate the risk to some extent.

Margins susceptible to volatility in raw material prices - The contracts executed by the company are fixed price in nature and the order execution time for manufacturing the machines is two to six months, depending on the type of machine. This exposes the company to sharp fluctuation in raw material prices.

Liquidity position: Adequate

The company's liquidity position is adequate, marked by the availability of free cash and bank balances of around Rs. 28.45 crore as on March 31, 2024. The company undertook a capex in FY2024 and is undertaking some capex in FY2025 as well, which is likely to be funded by a debt of Rs. 20.80 crore for a tenure of 10 years with the option of prepayment. Other than this, the company has most of the debt in the form of unsecured loans from promoters, resulting in minimal debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade MGTL's ratings if the company significantly scales up its operations by securing new orders along with an improvement in profitability while maintaining healthy debt coverage metrics and a comfortable liquidity position.

Negative factors – Pressure on MGTL's ratings could arise if there is a significant decline in scale and profitability due to increase in competition or demand slowdown. Further, higher-than-anticipated dividend payouts that lower the cash accruals, or a stretch in working capital cycle that adversely affects the liquidity, or any large debt-funded capex that deteriorates the capital structure and coverage indicators (TOL/TNW of 1.7 times or higher) could exert pressure on the ratings.

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 standalone financials of the entity

About the company

MGTL was set up in 1973 as a partnership firm promoted by two engineer entrepreneurs with experience in the designing and manufacturing of machine tools. The company manufactures grinding machines that are used extensively in industries such as automobiles, printing, pumps, steel mills, defence and aerospace for giving finishing touches to components such as fuel injections, engine valves, bearings, power trains, cutting tools etc. The company is a part of the Ace Micromatic Group, which has a diversified presence in the machine tools industry, with products such as computer numerical control (CNC) lathes and milling and drilling and grinding machines. MGTL at present operates three units – two in Ghaziabad, Uttar Pradesh, and one in Bengaluru, Karnataka.

In 2008, MGTL entered into a JV, namely Toyoda-Micromatic Machinery India Limited, with JTEKT Corporation (formerly Toyoda Machine Works), Japan, for marketing and servicing the latter's grinding machines in India. MGTL also manufactures machinery under this JV which is sold under the brand name of Toyoda-Micromatic and Toyoda in India and South-East Asia. This collaboration was a step towards gradually entering the Japanese market and implementing the technology from JTEKT in the Indian market.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	161.7	183.1
PAT	11.7	13.2
OPBDIT/OI	11.2%	11.5%
PAT/OI	7.2%	7.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.9
Total debt/OPBDIT (times)	0.5	0.9
Interest coverage (times)	17.9	17.9

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	25-OCT-2024	Date	Rating	Date	Rating	Date	Rating
Short term bank guarantee non fund based	Short term	11.50	[ICRA]A2	21-JUL-2023	[ICRA]A2	31-MAY-2022	[ICRA]A2	-	-
Long term cash credit fund based	Long term	4.50	[ICRA]BBB+ (Stable)	21-JUL-2023	[ICRA]BBB+ (Stable)	31-MAY-2022	[ICRA]BBB+ (Stable)	-	-
Long term/short term overdraft-fund based/non-fund based	Long term/Short term	0.00	-	21-JUL-2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	-
Long term/short term others fund based/non-fund based	Long term/Short term	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	-	-	-
Long term/short term unallocated-unallocated	Long term/Short term	0.00	-	21-JUL-2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	-
Short term letter of credit non-fund based	Short term	1.00	[ICRA]A2	21-JUL-2023	[ICRA]A2	31-MAY-2022	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term/Short term – Fund-based/Non-fund based	Simple
Short-term – Non-fund based – Bank guarantee	Very Simple
Short-term – Non-fund based – Foreign letter of credit	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	4.50	[ICRA]BBB+ (Stable)
NA	**Fund-based/Non-fund based**	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	**Bank guarantee**	NA	NA	NA	11.50	[ICRA]A2
NA	**Foreign letter of credit**	NA	NA	NA	1.00	[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

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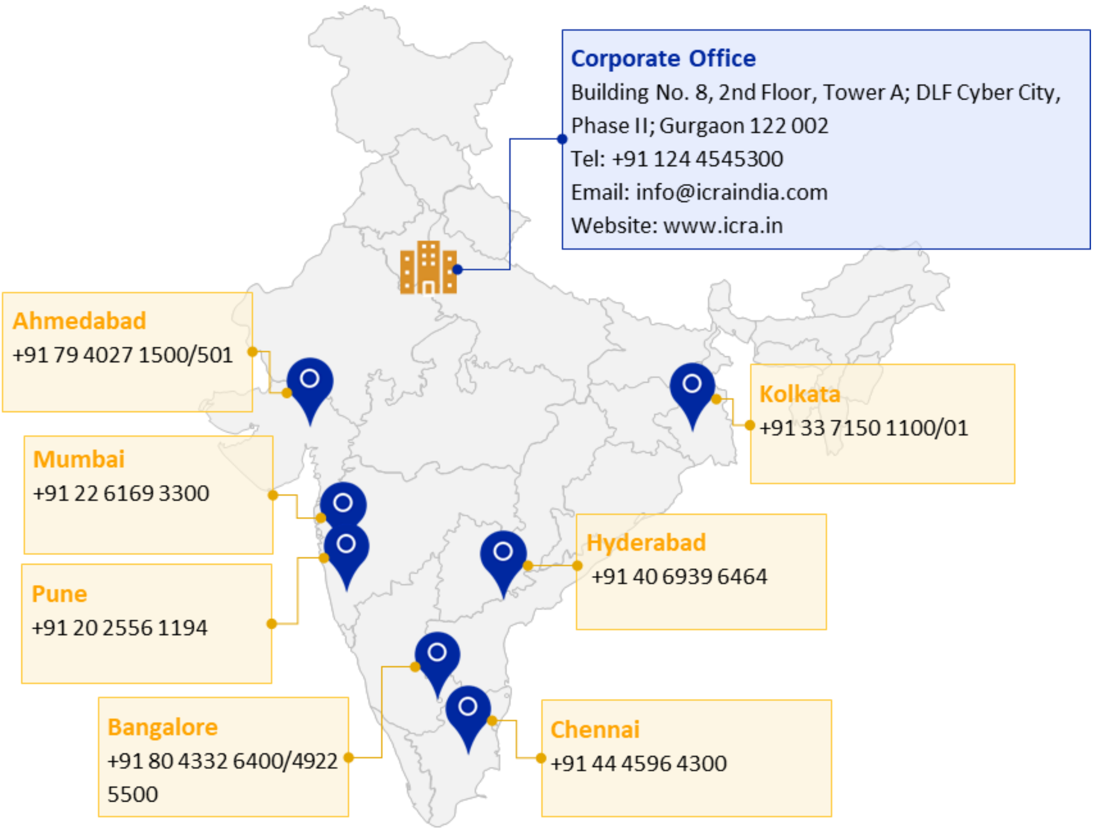

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