January 31, 2025

Motherson Techno Tools Limited: Long-term rating upgraded to [ICRA]AA(Stable); short-term rating 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+; Long-term rating upgraded from [ICRA]AA- (Stable) and Short-term rating reaffirmed
Long-term/ Short-term – Unallocated Limits	23.00	23.00	[ICRA]AA (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]AA- (Stable) and Short-term rating reaffirmed
Long-term/ Short-term – Non-fund Based Facilities	(10.00)	(10.00)	[ICRA]AA (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]AA- (Stable) and Short-term rating reaffirmed
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings upgrade for Motherson Techno Tools Limited (MTTL) factors in the improvement in the credit profile of the company's joint venture parent, Samvardhana Motherson International Limited (SAMIL) and ICRA's expectations that MTTL will continue to witness a healthy revenue growth on the back of its diversifying product mix and healthy market position in the Indian tooling industry while maintaining strong profitability, leading to strong cash flows. MTTL continues to benefit from its strong parentage, with Samvardhana Motherson Group (SMG) holding a 75% stake and Sumitomo Electric Industries Limited (SEIL; rated A3, Stable by Moody's), a Sumitomo Group company, holding the balance 25% stake. While the company benefits from the healthy financial flexibility for being a 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 ratings continue to 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 FY2024, with revenues of ~Rs. 313 crore in FY2024 at a consolidated level, a growth of ~27% over FY2023. The company's profitability metrics remained stable (OPBDITA margin of 20.5% in FY2024 against ~20.4% in FY2023). Aided by a steady growth 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 term, 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 challenge faced by the automotive industry, which still generates most of its revenues. Moreover, the performance cutting tool industry remains very competitive in nature. Despite the same, the company's foray into 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 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.

Access to financial support from parent entity – 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, strengthening its financial risk profile. As on March 31, 2024, the company's total debt outstanding of Rs. 45.9 crore comprised entirely of operating lease liabilities, resulting in Total Debt/OPBITDA of 0.7 times. 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. 313 crore in FY2024. Although MTTL is expected to record moderate revenue growth over the medium term, aided by expectation of new customer addition as well as continuation of business from its existing customers, its near-term growth prospects remain exposed to challenges faced by the automotive industry.

Intense competition 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. 39.3 crore (as of March 31, 2024) along with ~Rs. 100 crore of investments with Group companies in the form of ICDs and loans (which are liquid in nature and can be withdrawn, as and when required) and availability of Rs. 12.0-crore working capital facility (as on March 31, 2024; nil utilisation over the past year). The liquidity sources remain more than sufficient to cover its capex requirements. MTTL does not have any long-term debt repayment.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company significantly expand its operations while improving profitability indicators, aided by diversification of its revenue profile, and scale-up of 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 ratings downgrade. A deterioration in the credit profile of the parent entity, or weakening of linkages with the parent, could also lead to ratings downgrade. Specific credit metrics that may result in ratings downgrade include Total Debt/OPBITDA above 1.2 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Auto Components](#)
Parent/Group support	Parent company: Samvardhana Motherson International Limited The ratings 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, 2024, 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 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)	FY2023	FY2024
Operating income	247.3	313.4
PAT	38.8	45.4
OPBDIT/OI	20.4%	20.5%
PAT/OI	15.7%	14.5%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	1.0	0.7
Interest coverage (times)	92.9	15.2

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	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Jan 31, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term and short term	12.00	**[ICRA]AA (Stable)/ [ICRA]A1+**	Dec-14-2023	[ICRA]AA- (Stable)/ [ICRA]A1+	Nov-07-2022	[ICRA]AA- (Stable)/ [ICRA]A1+	Sep-09-2021	[ICRA]AA- (Stable)/ [ICRA]A1+
Unallocated Limits	Long term and short term	23.00	**[ICRA]AA (Stable)/ [ICRA]A1+**	Dec-14-2023	[ICRA]AA- (Stable)/ [ICRA]A1+	Nov-07-2022	[ICRA]AA- (Stable)/ [ICRA]A1+	Sep-09-2021	[ICRA]AA- (Stable)/ [ICRA]A1+
Non-Fund Based Facilities	Long term and short term	(10.00)	**[ICRA]AA (Stable)/ [ICRA]A1+**	Dec-14-2023	[ICRA]AA- (Stable)/ [ICRA]A1+	Nov-07-2022	[ICRA]AA- (Stable)/ [ICRA]A1+	Sep-09-2021	[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

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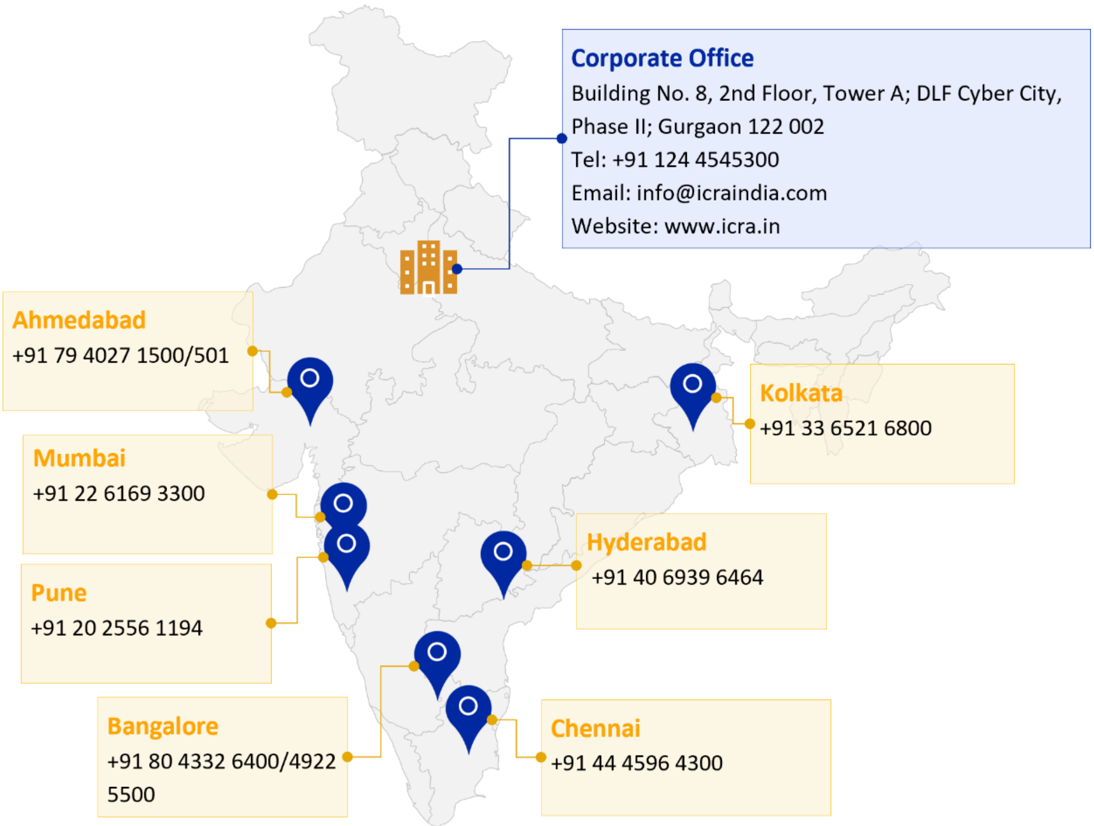

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