August 18, 2020

Mohindra Fasteners Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based	19.00	19.00	[ICRA]BBB (Stable); Reaffirmed
Short Term - Non-fund Based	20.00	20.00	[ICRA]A3+; Reaffirmed
Total	**39.00**	**39.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to favourably factor in the promoters' extensive experience and the established position of Mohindra Fasteners Limited's (MFL) as a supplier of fasteners in the global market. Moreover, with an increase in exports and an increasing proportion of specialised fasteners in its overall revenue mix, the company's operating profitability has steadily improved. Consequently, its debt coverage indicators have also strengthened. Further, ICRA notes the company's adequate liquidity profile at present, aided by sizable cash and liquid funds along with sufficient unutilised buffer available on sanctioned working capital limits. Further, ICRA positively notes the company's established as well as diversified customer base, across various end-user industries.

The ratings, however, are constrained by MFL's relatively modest scale of operations that limit its economies of scale. ICRA also notes the moderation in the company's revenues in FY2020 following a weakness in global as well as domestic demand. Further, with the majority of the revenues being derived from the European market, the company faces high geographical-concentration risk. ICRA also notes that the near-term business environment remains challenging for the company due to the prevailing Covid-19 pandemic-linked disruptions. Thus, ICRA expects the company's top line for FY2021 to remain under pressure, with the recovery primarily dependent upon the relaxation and normalisation of economic activities. The ratings also consider the vulnerability of the company's profitability to any adverse currency fluctuations along with fluctuations in steel (key raw material) prices. Additionally, MFL plans to incur a debt-funded capital expenditure in the next two years. While the expansion bodes well for the company's medium-term revenue growth prospects, the same may result in a slight moderation in its profitability and capital structure over the medium term. The ratings also take into account the fragmented nature of the domestic fasteners industry, which adds to the competitive pressure, and the high working capital intensity inherent in the business due to high inventory holding requirements.

The Stable outlook on the rating reflects ICRA's opinion that MFL will continue to benefit from its established presence in the export market and its long relations with its key customers.

Key rating drivers and their description

Credit strengths

Experienced management with long track record in industry with established stakeholder relationships – The promoters have been involved in the fastener manufacturing industry for more than two decades. Their relationship with original equipment manufacturers (OEMs) and suppliers has helped the company to grow at a healthy pace in the past.

Fairly diversified customer profile across segments – The company has been supplying to reputed OEMs in the domestic market like Hero MotoCorp Limited with which it enjoys repeat business. Moreover, MFL has long associations with its overseas customers, and has increased its business share with the same. The company has a moderately diversified customer base in both domestic and exports market with the top five clients accounting for <50% of its overall sales in FY2020. In addition, MFL has a diversified presence across various segments including automotive, industrial, railways, home appliances, etc.

Comfortable financial risk profile – The company has a comfortable financial risk profile, characterised by conservative capital structure and healthy debt coverage metrics. The prudent use of working capital, along with an increase in accruals, led to comfortable gearing and TOL/TNW at 0.2 times and 0.6 times, respectively as on March 31, 2020. Further, the debt protection measures were healthy due to controlled leverage and healthy profitability. ICRA also notes the capex plan underway (expected to be concluded over the next two years), which is likely to put some pressure on the company's coverage metrics going forward.

Credit challenges

Moderate scale of operations with near-term demand prospects impacted by Covid-19 pandemic – MFL continues to operate at a moderate scale, which limits economies of scale. Moreover, given the weakness in demand, the company reported a revenue decline in FY2020. Additionally, the pandemic and associated lockdown as well as demand slowdown would continue to pose challenges over the near term.

High working capital intensity – MFL's operations remain working capital-intensive owing to high inventory levels. In addition, with the change in the company's raw material procurement policy, and focus on domestic suppliers, the working capital intensity may increase in the near term because of the relatively short credit period offered by it.

Profitability remains exposed to fluctuations in steel price movements and foreign exchange – The price of steel, which is the key raw material, moves in tandem with the commodity cycle and hence, is subject to fluctuations. In the absence of price variation clauses in its contracts, the company's ability to pass on any price increases to its customers remains limited. Also, the high bargaining power of its customers is a credit negative. As a result, MFL continues to be exposed to adverse variations in raw material prices. Further, with no formal hedging policy in place, the company's profitability remains exposed to adverse fluctuations in foreign currency.

Intense competition from well-established players in the industry – MFL faces competition from well-established players as well as unorganised players, which limits its pricing power. Further, with the majority of the revenues being derived from the European market, the company faces high geographical-concentration risk.

Proposed capacity expansions to result in increased debt levels – The planned capital expenditure in the next two years will result in an increase in the debt levels. Correspondingly, the company's profitability indicators are expected to moderate because of overhead costs related to setting up of the new plant. The impact on its capitalisation and coverage indicators will be sensitive to the scale up of operations at the said plant.

Liquidity position: Adequate

MFL's liquidity is **adequate** supported by expectation of healthy cash flow generation, although likely to be lower than the previous year. This, along with surplus cash balances (Rs. 18.56 crore as on March 2020) and nil long-term debt repayment obligation, is likely to support MFL's liquidity. The moderate utilisation of working capital limits further supports the company's liquidity.

Rating sensitivities

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

Negative triggers – Downward pressure on MFL's rating could arise if the impact of the pandemic results in prolonged weakness in operating metrics. Significant debt-funded capex leading to weakening of debt servicing indicators and liquidity position may result in a rating downgrade. A specific credit metric that may lead to a downgrade of MFL's rating is total debt/OPBDITA above 2.5 times on a sustained basis.

Analytical approach

	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

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, bolts, etc., at its three manufacturing facilities at Rohtak. In addition to catering the domestic market, MFL derives more than half of its total revenue from exports to Europe and North America.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	134.8	101.5
PAT (Rs. crore)	9.1	9.4
OPBDIT/OI (%)	12.3%	13.3%
RoCE (%)	18.2%	17.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.6
Total Debt/OPBDITA (times)	1.1	1.0
Interest Coverage (times)	13.0	24.3

Source: Financial statements of MFL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SNo	Name of Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the Past 3 years		
			Rated amount (Rs. crore)	Amount outstanding	Month-year & Rating	Month- year and Rating in		
						FY2020	FY2019	FY2018
					August 18, 2020	August 1, 2019	July 23, 2018	July 20, 2017
1	Fund-based Limits	Long-term	19.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Non-fund Based Limits	Short-term	20.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based Limits	-	-	-	19.00	[ICRA] BBB (Stable)
-	Non-fund Based	-	-	-	20.00	[ICRA] A3+

Source: MFL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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.

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