

December 08, 2020

MTAR Technologies Pvt. Ltd.: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	58.00	58.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Long-term – Fund-based TL	5.80	30.80	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Long-term/Short-term – Non-fund Based	110.00	110.00	[ICRA]BBB+(Stable)/[ICRA]A2; Upgraded from [ICRA]BBB(Stable)/[ICRA]A3+
Long-term - Unallocated	26.20	1.20	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Stable)
Total	200.00	200.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade factors in the healthy revenue growth demonstrated in H1 FY2021, backed by healthy improvement in the order book and timely execution of orders post the lockdown period in the first quarter. The revenue growth is expected to remain healthy in the near term, given its unexecuted order book of Rs. 369.5 crore as on October 31, 2020 with strong order inflow from domestic and international clients. The ratings consider the comfortable financial profile with healthy operating profitability margins of 29.1%, gearing of 0.2 times, interest coverage of 12.4 times and DSCR of 9.6 times as on September 30, 2020. The ratings consider its established relationships with renowned clients including the Indian Space Research Organisation (ISRO), Bloom Energy Corporation (Bloom), Nuclear Power Corporation of India (NPCIL), Defence Research and Development Laboratory (DRDL), etc. Moreover, MTAR is the sole supplier for several products and hence faces restricted competition. The ratings factor in its favourable long-term demand prospects across its end-user segments, given the Government's thrust on indigenisation of production. ICRA notes the established presence of MTAR in the engineering industry, catering to various segments including power, nuclear, space and defence, which resulted in repeat orders from its customers over the years, thereby supporting its revenues.

The ratings, however, is constrained by the moderate scale of operations with revenues of Rs. 214.2 crore in FY2020. However, the scale improved significantly over the past few years. The ratings are further constrained by the high customer concentration as it derives a major share of its revenues from Bloom. Though the proportion of revenues from Bloom declined in H1 FY2021 (from 66% in FY2020), it remained high at 50%. The ratings consider the company's working capital-intensive nature of operations owing to long production and receivables cycle, inherent to the nature of the industry. The ratings also consider the vulnerability of its margins to fluctuations in forex rates as exports are not completely offset by raw material imports and the margins vary depending on the segment and customer mix. Moreover, its margins were affected in the past owing to sizeable inventory and bad-debt write-offs. However, its margins remained healthy in the range of 27-29% during the past three years.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectations that the company will continue to record healthy revenue growth, given the comfortable order book position and established operational track record, and it will maintain its healthy margins as it is the sole supplier for many of the products manufactured.

Key rating drivers and their description

Credit strengths

Established track record in engineering industry – The company has an established presence in the engineering industry, catering to varied segments, including power, nuclear, space, aerospace and defence. MTAR is the sole supplier of several products to its clients, indicating its expertise in manufacturing niche and quality products and limiting competition.

Healthy financial profile – The company's operating income (OI) witnessed a healthy annualised growth of 14% to Rs. 122.0 crore in H1 FY2021 on the back of timely execution of the order book. The revenue growth is expected to remain healthy in the near term, given its unexecuted order book of Rs. 369.5 crore as on October 31, 2020. Moreover, the company is expecting Rs. 200-crore orders from its domestic customers in Q4 FY2021, which is expected to support its medium-term growth. Its operating margins remained healthy at 27-29% during the past three years. Further, the financial profile is comfortable with gearing of 0.2 times, interest coverage of 12.4 times and DSCR at 9.6 times as on September 30, 2020.

Reputed client base – The company has a renowned client base including reputed players such as Bloom, ISRO, NPCIL, DRDL, etc. It has established relationship with its customers and has been receiving repeat orders from its clients.

Favourable long-term demand prospects – The favourable demand prospects across its end-user segments, given the Government's thrust on indigenisation of production, augur well for the company's long-term growth prospects.

Credit challenges

Moderate scale of operations with high customer concentration – The company's scale of operations remained moderate with revenues of Rs. 214.2 crore in FY2020. However, the same has improved significantly over the past few years, and is expected to grow at a healthy pace, going forward. MTAR has high customer concentration as it derived 50% of its revenues from a single customer, Bloom, in H1 FY2021. However, the company has reduced its concentration on Bloom from 66% in FY2020. Healthy order inflow from domestic clients in the nuclear and space segments remains crucial to reduce the concentration on Bloom in the near term.

Working capital-intensive operations – The company's operations are working capital-intensive in nature and its working capital intensity increased to 42% in H1 FY2021 from 31% in FY2020 due to increase in debtor and inventory days. The inventory holding was higher as on September 2020 as it stocked up raw material and WIP for the orders to be catered over the next few months, while, the receivables were higher as on September 30, 2020 on account of pending bills of Rs.8-9 crore related to price escalations, which are generally received within 60 days. The working capital intensity is expected to remain high in the near term as MTAR plans to grow at a strong pace.

Margins exposed to fluctuations in forex rates – The company’s margins are exposed to fluctuations in the forex rates as exports are not completely offset by raw material imports and margins vary depending on the segment and customer mix. Moreover, the margins were affected in the past owing to sizeable inventory and bad-debt write-offs. However, the margins remained healthy in the range of 27-29% over the past three years.

Liquidity position: Adequate

The company’s liquidity position is **adequate** with free cash balance of Rs. 9-10 crore and undrawn working capital limits of Rs. 25-28 crore as of September 2020. In the near term, it is expected to incur a capex of Rs. 30 crore, partly funded by a term loan of Rs. 25 crore (yet to be avail completely). It does not have any major repayment obligations in the near term. Overall, ICRA expects MTAR to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings if the company witnesses significant revenue growth and is able to sustain its healthy profitability and working capital cycle while continuing to reduce its customer concentration, backed by strengthening of order book across its customer industries including energy, space, nuclear, aerospace and defence segments.

Negative triggers – Negative pressure on the ratings may arise if higher dividend payout, high debt-funded capex, or any stretch in the working capital cycle impacts the company’s liquidity position or deteriorates in its coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

MTAR was started as a partnership firm in 1970 and was incorporated as a private limited company in 1999 by the Late P. Ravindra Reddy, Sri K. Satyanarayana Reddy and Sri P. Jayaprakash Reddy. The company has six manufacturing units in Hyderabad and has recently started a new unit in Adibatla. It primarily manufactures various machine equipment, assemblies, sub-assemblies, precious tools and spare parts for energy, nuclear, space, aerospace, defence and other engineering industries. The company has surface treatment, heat treatment and electroplating facilities. Its plant is ISO 9001:2015 and AS9100C certified.

Key financial indicators

	FY2019	FY2020
Operating Income (Rs. crore)	184.1	214.2
PAT (Rs. crore)	39.2	31.3
OPBDIT/ OI (%)	29.4%	27.3%
PAT/OI (%)	21.3%	14.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5
Total Debt/OPBDIT (times)	0.5	0.5
Interest Coverage (times)	12.1	12.3

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating			Date & Rating in FY2020 27-Sep-2019	Date & Rating in FY2019	Date & Rating in FY2018
				08-Dec-2020	07-Jul-2020	17-Jun-2020			
1 Cash Credit	Long-term	30.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2 Export Packing Credit	Long-term	28.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
3 Term Loan	Long-term	30.80	13.80*	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB- (Stable)/[ICRA]A3	-	-
4 Bank Guarantee	Long-term/Short-term	100.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A3	-	[ICRA]BBB- (Stable)/[ICRA]A3	-	-
5 Letter of credit	Long-term/Short-term	10.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A3	[ICRA]BBB (Stable)/[ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3	-	-
6 Unallocated	Long-term	1.20	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-	-	-

* yet to be disbursed completely

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
NA	Cash Credit	-	-	-	30.00	[ICRA]BBB+(Stable)
NA	Export Packing Credit	-	-	-	28.00	[ICRA]BBB+(Stable)
NA	Term Loan-1	May,2020	-	April,2021	5.80	[ICRA]BBB+(Stable)
NA	Term Loan-2	July,2020	-	March,2026	25.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	100.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Letter of Credit	-	-	-	10.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Unallocated	-	-	-	1.20	[ICRA]BBB+(Stable)

Source: MTAR

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