May 31, 2022

Micromatic Grinding Technologies Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	7.00	7.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Bank Guarantee	14.50	14.50	[ICRA]A2; upgraded from [ICRA]A3+
Foreign Letter of Credit	2.50	2.50	[ICRA]A2; upgraded from [ICRA]A3+
Total	**24.00**	**24.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings takes into account the expected increase in Micromatic Grinding Technologies Private Limited's (MGTL) revenue/orders, and sustained improvement in the liquidity position which was further supported by the one-time income received from the divestment of its stake (received ~Rs. 14.50 crore against investment of Rs. 0.05 crore) in one of the Group companies in FY2022. The ratings continue to positively factor in the company's strong financial risk profile marked by a comfortable capital structure and robust debt-coverage indicators. The ratings further derive support from the extensive experience of the promoters and the company's 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.

Nonetheless, the ratings remain constrained by the company's high exposure to the cyclical automotive sector, which contributes ~45-55% to its total sales. The ratings are further constrained by the company's moderate scale 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 nature of its contracts.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters and its long track record of operations in the grinding machines industry.

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 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. 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.

Strong financial risk profile - The company's financial risk profile is strong, marked by a comfortable capital structure and robust debt coverage indicators. This is reflected from a gearing of 0.1 times as on March 31, 2022 (provisional financials), total debt/OBDITA of 0.6 times, interest coverage of 16.5 times and NCA/TD of 292% in FY2022. Further, the company's profitability remains healthy, evident from an operating profit margin (OPM) of 12.6% in FY2022.

Credit challenges

Moderate scale of operations - The company's topline remains moderate and has witnessed a slow and steady growth to about Rs. 145-150.0 crore after almost five decades of operations. The company, at present, caters to only a limited section of the machine tools industry, which restricts its overall growth. The larger diversified players have product offerings in segments such as turning and milling/machining centres.

Notwithstanding this, the company's pending order book as of May 2022 was around Rs. 81.0 crore and the company is expected to achieve a revenue growth of more than 10% in FY2023 on a year-on-year (YoY) basis.

High dependence on auto sector - The company derives ~45-55% of its revenue from the automotive sector, making it susceptible to sectoral cyclicality. The demand scenario 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. Further, the company has plans to cater to the pharmaceutical sector.

Inventory risk due to fixed-price contracts - The contracts executed by the company are fixed price in nature and the order execution time for manufacturing machines is two to six months, depending on the type of machine. This exposes the company to raw material price fluctuations. However, enough margins are built in at the time of quoting the price to the customer.

Intensely competitive Indian grinding machine industry - MGTL's low value-added machinery faces intense price competition from domestic players, while its high value-added machinery has to compete with the foreign players from Italy, Japan and Germany.

Liquidity position: Adequate

The company's liquidity position is comfortable, marked by almost nil utilisation of the fund-based working capital limit over the 14-month period of January 2021 to February 2022 and free cash and bank balances of ~Rs. 46.00 crore as on March 31, 2022. Also, the company does not have any major bank debt on its books, owing to which the repayment obligations are miniscule.

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 liquidity position.

Negative factors: Negative pressure on MGTL's rating 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 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 negative pressure on the company's 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 as well as 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

	FY2021	FY2022 Provisionals
Operating Income (Rs. crore)	92.7	144.0
PAT (Rs. crore)	3.7	25.4
OPBDIT/OI (%)	9.4%	12.6%
PAT/OI (%)	4.0%	17.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	1.0	0.6
Interest Coverage (times)	7.6	16.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 31, 2022	-	Feb 04, 2021	Nov 21, 2019
1	Cash Credit	Long term	7.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Bank Guarantee	Short Term	14.50	-	[ICRA]A2	-	[ICRA]A3+	[ICRA]A3+
3	Foreign Letter of Credit	Short Term	2.50	-	[ICRA]A2	-	[ICRA]A3+	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple
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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	7.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	14.50	[ICRA]A2
NA	Foreign Letter of Credit	NA	NA	NA	2.50	[ICRA]A2

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

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.

For more information, visit www.icra.in

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