June 16, 2023

# MTAR Technologies 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 – Term loan | 110.80 | 172.59 | [ICRA]A (Stable); reaffirmed/assigned |
| Long-term fund based – Working capital facility | 63.00 | 245.00 | [ICRA]A (Stable); reaffirmed/assigned |
| Long-term/Short-term – Non-fund based | 110.00 | 214.00 | [ICRA]A (Stable)/ [ICRA]A1; reaffirmed/assigned |
| Long term - Unallocated | 1.20 | 18.41 | [ICRA]A (Stable); reaffirmed/assigned |
| Short term – Standby limit | - | 20.00 | [ICRA]A1; assigned |
| **Total** | **285.00** | **670.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings continue to draw comfort from the extensive experience of the promoters of MTAR Technologies Limited (MTL) and its track record in the precision engineering industry, which caters to various segments, including clean energy, nuclear, space, aerospace and defence. Also, the established relationship with renowned clients, including the Indian Space Research Organisation (ISRO), Bloom Energy Corporation (Bloom), Nuclear Power Corporation of India (NPCIL) and Defence Research and Development Laboratory (DRDL), has ensured repeat orders from its customers over the years. Further, the company is adding new products to its portfolio and adding new clients in all the segments, both of which are expected to augment the revenues. Moreover, as MTL has a strong technical capability and is the sole supplier for several products, it faces restricted competition.

The ratings also take into account MTL's healthy financial risk profile, led by strong earnings growth in FY2023 and healthy profit margins along with a comfortable capital structure and debt protection metrics. The company's revenue grew 78% in FY2023 and the growth momentum is expected to continue in the near term, supported by a strong order book position of ~Rs. 1,173 crore as of March 2023 and new orders in the pipeline from domestic and international clients.

The ratings, however, are constrained by high customer concentration as the company derives a major share of its revenues from one client i.e., Bloom Energy Corporation. Further, the ratings consider the company's working capital-intensive operations owing to the long production and receivable cycle inherent to the industry. The ratings also consider the vulnerability of its margins to the fluctuations in forex rates to the extent of the unhedged position and the margins vary, depending on the segment and customer mix.

The Stable outlook reflects ICRA's expectations that the company would continue to maintain its credit profile with an improvement in revenue, profit margins and overall liquidity position.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters and established track record in engineering industry –** MTL, established in 1970, draws comfort from the vast experience of its promoters and has developed strong in-house R&D capabilities over the years. The company has an established presence in the engineering industry, which caters to varied segments, including clean energy, nuclear power, space, aerospace and defence. MTL is the key supplier of several products to its clients, indicating its expertise in manufacturing niche and quality products, which limits competition. The company has a renowned client base, including reputed players such as Bloom Energy Corporation, Indian Space Research Organisation (ISRO), Nuclear Power Corporation of India (NPCIL) and Defence Research and Development Laboratory (DRDL). It has established relationship with its customers and has been receiving repeat orders from its clients.

**Strong order book position –** The company had an unexecuted order book of Rs. 1,173 crore as of March 2023, which provides revenue visibility for the near to medium term. Further, the company expects to receive large incremental orders over the next 12 months. The company is adding new products to its portfolio and acquiring clients in various segments, which are expected to augment the revenues, going forward. Further, the favourable demand prospects across its end-user segments, given the Government's thrust on the indigenisation of production, augur well for the company's long-term growth prospects.

**Healthy growth in earnings and debt protection metrics –** The company's operating income (OI) witnessed a healthy growth of 78% in FY2023 on the back of a growing order book and timely execution. The revenue growth is expected to remain robust in the medium term, given its healthy unexecuted order book. Also, its operating margin has been healthy at ~26.9% in FY2023 and is expected to remain at ~27-28%, going forward.

Further, the company has incurred debt-funded capex in FY2023 to set up a new sheet metal & specialised fabrication plant, which is expected to enhance the company's overall execution capability, expand the order book and boost sales growth. The company's capital structure remained comfortable with a gearing of 0.2 times and TOL/TNW of 0.7 times as on March 31, 2023. Going forward, the capital structure and coverage metrics are expected to remain healthy with an estimated TOL/TNW of 0.7 times, interest coverage of 9.5 times and TD/OPBDITA of 1.1 times for FY2024.

### Credit challenges

**High customer concentration risk –** The company's scale of operations remained moderate, with revenues at Rs. 322 crore in FY2022 and Rs. 573 crore in FY2023. However, the revenue has improved significantly over the last few years and is expected to grow at a healthy pace. The company has high customer concentration — it derived more than 75% of its revenues from a single customer, Bloom Energy Corporation. The company's revenues and margins would be adversely impacted if the offtake by the customer declines. Nevertheless, the overall client profile comprises reputed players with repeat orders received over the years, largely mitigating the counterparty credit risk. A healthy order inflow from domestic clients in the nuclear and space segments and new client acquisitions are crucial in reducing the concentration risk over the medium term.

**Working capital-intensive operations –** The company's operations are working capital intensive, reflected in NWC/OI of ~63% in FY2023 (75% as of FY2022 end) due to the long receivable cycle and high inventory holding requirements. The company extends a credit period of up to 120 days to its customers and receives a credit period of 30-120 days from its import suppliers (majority of the period is in transit time). As MTAR manufactures products with a long cycle, the inventory levels remain high. Further, the sharp increase in the inventory levels in the recent past is attributable to the raw materials which are in transit. The overall working capital intensity is expected to remain high in the medium term due to a growing order book and a relatively long manufacturing cycle and lead time.
**Exposure to fluctuations in forex rates –** The company's margins are exposed to fluctuations in the forex rates as MTL is a net exporter. Thus, any sharp adverse movement in the forex rates can impact the realisations and the operating margins. The

margins also vary, depending on the segment and customer mix. However, the margins remained healthy over the past three years.

## Liquidity position: Adequate

The company's liquidity position is adequate with average working capital utilisation of 60% in the 14 months ended April 2023. The liquidity profile is further supported by the recent enhancement in fund-based working capital limits which increased to ~Rs. 245 crore from Rs. 100 crore. As on March 31, 2023, the company had free cash and liquid investments of Rs. 39.8 crore. Moreover, the anticipated annual cash flows are expected to remain healthy against a repayment obligation of ~Rs. 27.4 crore in FY2024.

## Rating sensitivities

**Positive factors –** ICRA may upgrade the ratings if the company is able to sustain its healthy revenue growth, aided by diversification of the customer base and improvement in the working capital cycle while maintaining healthy margins and liquidity.

**Negative factors –** ICRA may downgrade the ratings if any significant reduction in margins or lower-than-expected accruals, or if any stretch in the working capital cycle impacts its liquidity position, or if there is a higher-than-anticipated debt-funded capex. Specific credit metrics that may downgrade MTL's ratings include TD/OBDITA of more than 2 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has consolidated the financials of MTAR and its wholly owned subsidiaries - MASPL and GPADPL |

## About the company

MTL 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 was publicly listed on the exchanges in March 2021. The company has six manufacturing units, including an EOU in Hyderabad, and has recently started a new unit at Adibatla. It primarily manufactures various machine equipment, assemblies, sub-assemblies, precious tools and spare parts for the clean energy, nuclear, space, aerospace, defence and other engineering industries. The company has surface treatment, heat treatment and electroplating facilities. Its plants are ISO 9001:2015 and AS9100C certified. The company incorporated wholly-owned subsidiary Magnatar Aero Systems Private Limited (MASPL; an MSME company) in FY2020 to reach out to global OEMs who either have defence deals with India or have their business operations in India; however, till date there are no operations in the subsidiary. The company acquired Geepee Aerospace and Defence Private Limited in June 2022 (an MSME company) and currently operates in a small scale.

### Key financial indicators (audited)

| MTL – Consolidated | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 322.0 | 573.8 |
| **PAT** | 60.9 | 103.4 |
| **OPBDIT/OI** | 29.3% | 26.9% |
| **PAT/OI** | 18.9% | 18.0% |
| **Total outside liabilities/Tangible net worth (times)** | 0.4 | 0.7 |
| **Total debt/OPBDIT (times)** | 1.0 | 0.9 |
| **Interest coverage (times)** | 14.2 | 10.6 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | | Date & rating in FY2023 | Date & rating in FY2022 | | Date & rating in FY2021 | | |
| | | | | | Jun 16, 2023 | Apr 04, 2023 | - | Jan 07, 2022 | Apr 21, 2021 | Dec 08, 2020 | Jul 07, 2020 | Jun 17, 2020 |
| 1 | **Term loan** | Long-Term | 172.59 | 105.10* | [ICRA]A (Stable) | [ICRA]A (Stable) | - | [ICRA]A (Stable) | [ICRA]A- (Positive) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 2 | **Working capital facility** | Long-Term | 245.00 | - | [ICRA]A (Stable) | [ICRA]A (Stable) | - | [ICRA]A (Stable) | [ICRA]A- (Positive) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 3 | **Bank guarantee** | Long-Term/Short-term | 150.00 | | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A (Stable)/ [ICRA]A1 | - | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A- (Positive)/[ICRA]A2+ | [ICRA]BBB+ (Stable)/ [ICRA]A2 | [ICRA]BBB (Stable)/[ICRA]A3+ | - |
| 4 | **Letter of credit** | Long-Term/Short-term | 50.00 | - | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A (Stable)/ [ICRA]A1 | - | [ICRA]A (Stable)/ [ICRA]A1 | [ICRA]A- (Positive)/[ICRA]A2+ | [ICRA]BBB+ (Stable)/ [ICRA]A2 | [ICRA]BBB (Stable)/[ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ |
| 5 | **Derivatives/Credit exposure limits** | Long-Term/Short-term | 14.00 | - | [ICRA]A (Stable)/ [ICRA]A1 | - | - | - | - | - | - | - |
| 6 | **Unallocated** | Long-Term | 18.41 | - | [ICRA]A (Stable) | [ICRA]A (Stable) | - | [ICRA]A (Stable) | [ICRA]A- (Positive) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) | - |
| 7 | **Standby limit** | Short-term | 20.00 | - | [ICRA] A1 | - | - | - | - | - | - | - |

*The loan is yet to be disbursed completely

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term fund-based – Term loan** | Simple |
| **Long-term fund based – Working capital facility** | Simple |
| **Long-term/Short-term – Non-fund based** | Very Simple |
| **Long-term – Unallocated** | NA |
| **Short term – Standby limit** | 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 | Working capital facility | - | - | - | 245.00 | [ICRA]A (Stable) |
| NA | Term Loan | Jul-2020 | - | Mar-2029 | 172.59 | [ICRA]A (Stable) |
| NA | Bank Guarantee | - | - | - | 150.00 | [ICRA]A (Stable)/ [ICRA]A1 |
| NA | Letter of Credit | - | - | - | 50.00 | [ICRA]A (Stable)/ [ICRA]A1 |
| NA | Derivatives/Credit Exposure | - | - | - | 14.00 | [ICRA]A (Stable)/ [ICRA]A1 |
| NA | Unallocated | - | - | - | 18.41 | [ICRA]A (Stable) |
| NA | Standby Limits | - | - | - | 20.00 | [ICRA]A1 |

*Source: Company*

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

## Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| MTAR Technologies Limited | Rated entity | Full Consolidation |
| Magnatar Aero Systems Private Limited | 100% | Full Consolidation |
| Gee Pee Aerospace and Defence Private Limited | 100% | Full Consolidation |

*Source: MTAR's shareholding pattern ending March 31, 2023*

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