September 23, 2024

MTAR Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	172.59	139.00	[ICRA]A(Stable); reaffirmed
Long-term fund based – Working capital facility	245.00	297.00	[ICRA]A(Stable); reaffirmed
Long-term/Short-term – Non-fund based	214.00	214.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Short term – Standby limit	20.00	20.00	[ICRA]A1; reaffirmed
Long term - Unallocated	18.41	0.00	-
Total	**670.00**	**670.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in 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), among others, has ensured repeat orders from its customers over the years. Further, the company is developing new products as well as acquiring new clients, both of which are expected to augment the revenues, going forward. Moreover, MTL is the key supplier of several products to its clients, indicating its expertise in manufacturing niche and quality products, which limits competition.

The ratings also take into account MTAR's healthy financial risk profile, with a comfortable capital structure and debt protection metrics. ICRA notes the moderation in revenue and profitability in FY2024, which has moderated the coverage indicators. However, the company is expected to report healthy revenue growth in FY2025, supported by a strong order book position of ~Rs. 894 crore as of June 2024. Further, the growth momentum is expected to sustain in the medium term, supported by healthy 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 is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

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), among others. It has established relationship with its customers and has been receiving repeat orders from its clients.

Healthy order book position – The company had an unexecuted order book of Rs. 894 crore as of June 2024, which provides revenue visibility for the near to medium term. Further, the company expects to receive healthy incremental orders over the next 12 months. The company is adding new products to its portfolio and acquiring clients in various segments, which is expected to augment the revenues, going forward. Further, the favourable demand prospects in the end-user segments and Government's thrust on the indigenisation of production augur well for the company's long-term growth prospects.

Comfortable capital structure and healthy debt protection metrics – The company's capital structure continues to be comfortable with a gearing of 0.3 times as on March 31, 2024, though it moderated from 0.2 times as on March 31, 2023, with an increase in the long-term borrowing because of the debt-funded capex. In FY2024, the company undertook capex to increase the capacity, set up specialised fabrication facilities and a new unit to cater to aerospace vertical.

The debt protection metrics remain healthy. However, the company's revenue and profitability moderated in FY2024, thereby moderating the coverage indicators, reflected in total debt/OPBDITA of 1.7 times and interest coverage of 5.1 times compared to total debt/OPBDITA of 0.9 times and interest coverage of 10.6 times in FY2023. Nevertheless, the company is expected to report healthy revenue growth in FY2025, supported by a strong order book position of ~Rs. 894 crore as of June 2024. Further, the growth momentum is expected to sustain in the medium term, backed by the likely healthy orders in the pipeline from domestic and international clients. The increase in the OI is likely to support the operating leverage, leading to an improvement in the operating margins and healthy coverage indicators, going forward.

Credit challenges

High customer concentration risk – The company has high customer concentration. It derived more than 70% of its revenues from a single customer - Bloom Energy Corporation - in FY2024 and Q1 FY2025. The company's revenues and margins would be adversely impacted if the offtake by the customer declines, as seen in FY2024, when the operating income was lower than projected due to deferment of orders by Bloom Energy. 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 will be 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 ~71% in FY2023 (64% as of FY2023) 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 the fluctuations in 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 have remained healthy over the past three years.

Environmental and Social Risks

Environmental considerations - The precision engineered systems manufacturing sector may face environmental risks due to changing regulations, such as tighter energy and carbon norms. According to the disclosures made in the company's annual report, its operating units are compliant with the applicable environmental laws/regulations and guidelines, as per the national and state-level mandates. Over the years, MTL has strategised to grow in the clean energy segment to manufacture climate-positive products with majority of the revenue (~71% of total revenue in FY2024) derived from this segment, including civil nuclear power and fuel cells. Further, the company has been taking steps to reduce its carbon footprint by enhancing its reliance on renewable sources for power.

Social considerations -MTL, like most precision engineered systems suppliers, has a healthy dependence on human capital; as such retaining human capital and maintaining healthy employee relations and a supplier ecosystem remains essential for disruption-free operations of the entity. Another social risk that MTL faces pertains to product safety and quality, wherein instances of product recalls may not only lead to financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, MTL's strong track record in catering to leading players in the industry underscores its ability to mitigate these risks to an extent. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

The company's liquidity position is adequate with average fund-based working capital utilisation of 36% in the 15 months ended July 2024. As on March 31, 2024, the company had free cash and liquid investments of Rs. 39 crore. Moreover, the anticipated annual cash flows are expected to remain healthy against a repayment obligation of ~Rs. 45.5 crore in FY2025 and Rs. 45 crore in FY2026.

Rating sensitivities

Positive factors - ICRA may upgrade the ratings if the company is able to sustain a 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 (Annexure II)

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 went for an initial public offering (IPO) and was listed on the exchanges in March 2021.The company has eight manufacturing units in Telangana; the eighth unit is likely to be operational by December 2024. Its plants are ISO 14001:2015 and AS9100D certified.

MTAR specialises in the design and fabrication of complex precision engineered systems, such as

1. Fuelling machine head, bridge & column, fuel transfer system, coolant channel assemblies, drive mechanisms, fuel locator assembly, sealing & shielding doors etc. for the core of nuclear reactors
2. Liquid propulsion engines, cryogenic engine sub-systems, electro-pneumatic modules, satellite valves, grid fin structures etc. for space launch vehicles, precision engineered assemblies for various MNC aerospace companies
3. Gear boxes, aerostructures, actuation systems, ball screws etc. for various applications in defence
4. SOFC & hydrogen units for fuel cells, sheet metal assemblies, enclosures, and electrolysers in the clean energy sector.
5. Import substitutes such as ball screws, water lubricated bearings, roller screws, ASP assemblies that find various applications in clean energy - civil nuclear power, space & defence sectors.
6. Specialised fabricated structures such as draft tube, spiral casing, rotor & stator assemblies for various hydropower and wind energy applications

The company incorporated a 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	FY2023	FY2024	Q1 FY2025
Operating income	573.8	580.8	128.3
PAT	103.4	56.1	4.4
OPBDIT/OI	26.9%	19.4%	12.9%
PAT/OI	18.0%	9.7%	3.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.5	-
Total debt/OPBDIT (times)	0.9	1.7	-
Interest coverage (times)	10.6	5.1	3.5

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)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	
				Sep 23, 2024	Jun 16, 2023	Apr 04, 2023		Jan 07, 2022	Apr 21, 2021
1	Term loan	Long-Term	139.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Positive)
2	Working capital facility	Long-Term	297.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Positive)
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 (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/[ICRA]A2+
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 (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/[ICRA]A2+
5	Derivatives/ Credit exposure limits	Long-Term/Short-term	14.00	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-
6	Unallocated	Long-Term	0.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Positive)
7	Standby limit	Short-term	20.00	[ICRA]A1	[ICRA]A1	-	-	-	-

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
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**	-	-	-	297.00	[ICRA]A(Stable)
NA	**Term loan I**	Sep 2021	-	October 2026	36.94	[ICRA]A(Stable)
NA	**Term loan II**	Apr 2022	-	Aug 2027	27.85	[ICRA]A(Stable)
NA	**Term loan III**	Apr 2023	-	March 2029	35.10	[ICRA]A(Stable)
NA	**Term loan IV**	Jan 2024	-	Dec 2028	24.00	[ICRA]A(Stable)
NA	**Term loan V**	Dec 2023	-	Sep 2028	15.11	[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	**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 & Defence Private Limited	100%	Full Consolidation

Source: MTAR's shareholding pattern ended March 31, 2024

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