

Motherson Techno Tools Limited

April 03, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Cash Credit Facilities	12.0	12.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Unallocated	23.0	23.0	
Non-fund Based Facilities (Sublimit of Cash Credit Facilities)	(10.0)	(10.0)	
Total	35.0	35.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation favourably factors in Motherson Techno Tools Limited's (MTTL's) strong financial risk profile as well as stable operating performance. The financial profile is characterised by zero debt position and cash balances of Rs. 26.3 crore as on March 31, 2018. Further, the company reported steady improvement in operating profits and cash accruals, benefitting from its improved product mix. The ratings also take comfort from the strong credit profile of its promoter Group, the Samvardhana Motherson Group (SMG), the largest auto-ancillary Group in India, with the flagship company, Motherson Sumi Systems Limited (MSSL), rated [ICRA]AA+(Stable)/[ICRA]A1+.

ICRA also notes the continued favourable shift in the company's product mix towards higher value accretive manufactured goods, which contributed ~65% to the total revenues in 7M FY2019 (up from ~49% in FY2015). This supported the improvement in operating margins to 19.9% in FY2018 as well as reduced the exposure to fluctuations in foreign exchange (as imports are now rupee denominated), which affected the margin profile in the past. The company also enjoys a healthy business profile, benefitting from the access to technical assistance from Sumitomo Electric Industries Limited (SEIL, a Sumitomo Group company; rated A1, Stable by Moody's Investor Services).

The ratings, however, remain constrained on account of the company's moderate market position and limited pricing power. The performance cutting tool industry has presence of large players (with some Indian subsidiaries of global players having significant backward integration) with strong product portfolios as well as established relationships.

Outlook: Stable

ICRA expects the company to continue to enjoy strong credit metrics and comfortable liquidity, while maintaining its debt-free status. The outlook may be revised to Positive if the company substantially increases its scale and market position, while maintaining a comfortable credit risk profile. The outlook may be revised to Negative if there is any sizeable debt-funded capital expenditure, which may impact its credit profile.

Key rating drivers

Credit strengths

Strong promoter background - MTTL is a joint venture with strong parents, the Samvardhana Motherson Group (which includes the flagship company, MSSL) and SEIL.

Strong business profile led by technical support from SEIL and value-added manufacturing - SEIL, having a 25% shareholding, provides technical support to MTTL for product development activities. In the four-year period during FY2015-FY2018, the manufactured goods sales grew at CAGR of 18.2% in line with the company's efforts to increase its in-house capabilities with the help of SEIL. The contribution to net sales of the manufactured products increased to 65% in 7M FY2019 from 58% in FY2017. Going forward, the revenues of MTTL's manufacturing segment are likely to continue to report a healthy growth pace.

Conservative capital structure with negligible dependence on debt - Traditionally, the company's dependence on bank borrowings remained negligible given its healthy retained cash flows as well as cash reserves. MTTL funded its Rs. 46.4-crore capex outflow during FY2016-FY2018 entirely from its internal accruals.

Comfortable liquidity position - The company reported healthy cash reserves of Rs. 26.3 crore as on March 31, 2018 and continues to have financial flexibility from undrawn fund-based working capital limits. Going forward, the liquidity position is expected to remain comfortable as no major capex is expected, with the working capital requirements also remaining at similar levels.

Credit challenges

Moderate scale of operations - The company's scale of operations is moderate with the operating income (OI) of Rs. 141.4 crore in FY2018. As per the management, the company's market share is ~6-7% of the domestic cutting tool market.

Intense competition in cutting tool industry - The market size of the domestic cutting tool industry was ~Rs. 3,500-3,600 crore, as per the management. The industry remains competitive with the presence of numerous global players (such as Kennametal India Limited, Sandvik Asia Private Limited, TaeguTec India Private Limited and MMC Hardmetal India Private Limited (a Mitsubishi Group company)) as well as unorganised players.

High dependence on imports - The company's imports were significantly high at 90% in FY2018 making it vulnerable to any regulatory changes (especially import-duty related changes), which can impact its competitive position.

Liquidity position

MTTL's liquidity position remains strong, characterised by zero debt, unutilised bank limits as well as healthy cash and liquid investments of Rs. 26.1 crore as on March 31, 2018. Going forward, with no major capex plan in the medium term and healthy cash accruals, the company's liquidity position is likely to remain robust.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Samvardhana Motherhood Group (flagship company - Motherhood Sumi Systems Limited rated [ICRA]AA+(Stable)/[ICRA]A1+)
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

MTTL manufactures and supplies performance cutting tools, which are consumed in various production processes involving cutting, milling, turning, boring, grinding and precision tool holding. It operates through a manufacturing facility in Noida (Uttar Pradesh) and is promoted by SMG (75%) and SEIL, a Sumitomo Group company (25%). The company derives a major part of its revenues from supplies to various players in the domestic automotive sector, including various original equipment manufacturers (OEMs) and auto ancillaries. SEIL provides technical assistance through regular technology transfers to the company and has two members on MTTL's eight-member board of directors.

The company's products can be divided into three segments - coated carbide inserts and drills, coated Cubic Boron Nitride (CBN) inserts, and Polycrystalline Diamond (PCD) inserts, tools and reamers. In October 2015, it started production of some carbide tools in-house, which were earlier being imported.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	123.2	141.4
PAT (Rs. crore)	3.0	4.6
OPBDIT/ OI (%)	17.4%	19.9%
RoCE (%)	7.4%	8.1%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest Coverage (times)	186.5	376.4
NWC/ OI (%)	18.6%	7.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount O/S (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					Apr 2019	Mar 2018	Dec 2016	Nov 2015	
1	Cash Credit (CC)*	Long Term/ Short Term	12.00	0.00	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Unallocated	Long Term/ Short Term	23.00	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)	
3	Non-fund Based Limits (as Sublimit of CC)	Long Term/ Short Term	(10.00)	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A1+	

*Includes sublimit of Rs. 10.0 crore of LC limits

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

IN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit (CC)	-	9.05%	-	12.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Non-fund Based Limits (as Sublimit of CC)	-	-	-	(10.00)	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Unallocated	-	-	-	23.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: MTTL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Motherson Techno Tools Mideast (FZE)	100%	Full Consolidation

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