April 07, 2022

Mazda Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	4.00	4.00	[ICRA]A (Stable); reaffirmed
Non-fund based Limits	18.38	18.38	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Unallocated Limits	2.00	2.00	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Total	**24.38**	**24.38**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to take into account Mazda Limited's (ML) established position in the vacuum and evaporator system manufacturing business and its established relationship with a reputed clientele ensuring repeat orders. The ratings favourably consider the comfortable capital structure, debt coverage indicators and liquidity position with limited external debt and considerable liquid investments (Rs. 41.67 crore as on September 30, 2021).

The ratings, however, remain constrained by the company's relatively modest scale of operations with revenues remaining in the range of Rs. 100-180 crore in the last five years mainly because the order inflow depends on the capex cycle of the end-user industry. The ratings continue to be constrained by the working capital-intensive nature of business, the susceptibility of its profitability margins to growing competition in the industry and the adverse fluctuation in raw material prices. ICRA notes that the company is undertaking brownfield expansion in its food division unit, which would be funded entirely through a mix of liquid investments and internal accruals. Hence, timely commissioning of the project within the budgeted cost and achievement of the desired operating parameters remain crucial.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that ML's revenues and accruals will be supported by its comfortable order inflow. Also, the company will continue to benefit from its established track record in the engineering segment.

Key rating drivers and their description

Credit strengths

Established position in vacuum and evaporator systems manufacturing – The company is one of the leading players in the vacuum and evaporators systems market and has an established track record spanning over 30 years with a history of repeat orders from reputed customers. This, coupled with continuous R&D capabilities, imparts significant operating flexibility to adapt to the changing market conditions. Further, ML enjoys technical association with Croll Reynolds International Inc, which remains one of its key shareholders and customers.

Healthy capital structure and coverage indicators and strong liquidity position – The company's capital structure remained robust with a healthy net worth base (Rs. 151.87 crore as on September 30, 2021) and limited debt requirements. The coverage indicators remain healthy, given its low debt and marginal interest outgo, with interest coverage of 32.40 times and TD/OPBDITA of 0.03 times as on September 30, 2021. Its liquidity position is healthy, supported by undrawn line of credit and unencumbered cash balance, and liquid investments of Rs. 41.67 crore as on September 30, 2021.

Reputed clientele – The clientele of the company includes reputed names such as Siemens Limited, SRF Limited, Triveni Turbine Limited, Lupin Limited, Vedanta Limited etc, with moderate customer concentration and ensure repeat orders.

Credit challenges

Range-bound scale of operations- The company's operating income has remained in the range of Rs. 100-180 crore in the last five years in the backdrop of muted capex plans of the end-user industry till FY2021. The company reported revenues of Rs. 112.78 crore in 9M FY2022 which remained stagnant in line with the previous fiscal on account of pandemic-related disruptions. The company's food division contributes 10-20% of the total revenue. Nevertheless, the company is expected to ramp up its operations in the food division by the next fiscal supported by capacity expansion.

Working capital-intensive business – The company's financial risk profile is marked by high working capital intensity with NWC/OI at 29% as on September 30, 2021 owing to high inventory holding for its existing and new orders and a relatively long receivable cycle. Its liquidity profile remains robust with unencumbered cash balance and liquid investments and almost nil utilisation of cash credit limits. However, better management of inventory holding and receivables, which keeps the working capital cycle under check, will be a key rating sensitivity.

Intense competition and adverse fluctuation in raw material prices limits margin expansion – The market for industrial vacuum systems and evaporators remains fragmented and the company faces stiff competition from established players. However, the number of preferred manufacturers for high-end project use remains limited and ML is able to shield itself from domestic competition up to some extent by virtue of its established credentials and ability to provide customised products. Further, its margins are susceptible to the adverse variations in commodity prices such as steel as most of the orders are fixed cost in nature, which puts pressure on margins at times.

Liquidity position: Strong

ML has a strong liquidity profile, supported by no major debt repayments, cushion in working capital limits, sizeable unencumbered cash balance and liquid investments of Rs. 41.67 crore as of September 2021.

Rating sensitivities

Positive factors – ICRA could upgrade ML's rating if the company demonstrates significant improvement in the scale of operations and profitability on a sustained basis, along with an improvement in the working capital cycle.

Negative factors – Negative pressure on ML's rating could arise if there is a decline in the scale of operations, along with moderation in profitability and further stretch in the working capital cycle. Further, higher-than-expected capital expenditure will significantly reduce the liquid investments and may lead to a rating downgrade.

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 financial statement

About the company

Mazda Limited (ML) was originally incorporated as Mazda Controls Private Limited in 1990. It is an Ahmedabad-based listed company promoted by Mr. Sorab R. Mody. It started its business with the manufacturing of valves, and over a period of time expanded its product portfolio to include vacuum systems, evaporators systems and other engineering products such as heaters, condensers, thermo compressors and pollution control equipment. In Q1 FY2011, the company sold its valves division to Circor. In FY2007, ML ventured into producing food products such as energy drinks and soft drink concentrates under the brand name of BCool and has been increasing its focus on the food division and is in midst of a brownfield expansion. It has five manufacturing facilities in Ahmedabad, Gujarat.

In FY2021, the company reported a net profit of Rs. 16.3 crore on an operating income (OI) of Rs. 152.4 crore against a net profit of Rs. 16.7 crore on an OI of Rs. 179.7 crore in the previous year. In 9M FY2022, it reported net profit of Rs. 13.4 crore on an OI of Rs. 112.8 crores.

Key financial indicators

	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	179.7	152.4	112.8
PAT (Rs. crore)	16.7	16.3	13.4
OPBDIT/OI (%)	14.0%	15.6%	16.2%
PAT/OI (%)	9.3%	10.7%	11.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2	-
Total Debt/OPBDIT (times)	0.03	0.02	-
Interest Coverage (times)	26.6	33.4	32.7

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 (FY2022)				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 on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Apr 07, 2022	Mar 04, 2021	Jan 06, 2020	Oct 25, 2018	Jun 29, 2018
1	EPC/PCFC^	Long Term	4.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable); ISSUER NOT COOPERATING
2	Bank Guarantee^^	Long Term/Short Term	18.00	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1; ISSUER NOT COOPERATING
3	Foreign Currency Exposure	Long Term/Short Term	0.38	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1; ISSUER NOT COOPERATING
4	Unallocated Limits	Long Term/Short Term	2.00	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1; ISSUER NOT COOPERATING

^includes sublimit of Rs. 2.00-crore FBD/EBR and Rs. 4.00-crore cash credit limit

^^includes Rs. 4.00-crore foreign bank guarantee and Rs. 3.50-crore letter of credit

Complexity level of the rated instrument

Instrument	Complexity Indicator
EPC/PCFC	Simple
Bank Guarantee	Very Simple
Foreign Currency Exposure	Very Simple
Unallocated Limits	NA

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: 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	EPC/PCFC	NA	NA	NA	4.00	[ICRA]A(Stable)
NA	Bank Guarantee	NA	NA	NA	18.00	[ICRA]A(Stable)/[ICRA]A1
NA	Foreign Currency Exposure	NA	NA	NA	0.38	[ICRA]A(Stable)/[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	2.00	[ICRA]A(Stable)/[ICRA]A1

Source: *Company*

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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