June 30, 2023

Mazda 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 limits	4.00	0.50	[ICRA]A (Stable); reaffirmed
Long-term/Short-term non-fund based limits	18.38	30.38	[ICRA]A (Stable)/[ICRA]A1; reaffirmed and assigned
Long-term/Short-term – Unallocated limits	2.00	0.00	-
Total	**24.38**	**30.88**	

**Instrument details are provided in Annexure-I*

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 company's stable profitability, comfortable capital structure and debt coverage indicators, limited external debt and a strong liquidity position, evident from the considerable liquid investments (Rs. 51.10 crore as on March 31, 2023) and cushion in working capital limits.

The ratings, however, remain constrained by the company's relatively modest scale of operations with revenues remaining in the range of Rs. 100-200 crore in the last five years. This is because the order inflow depends on the capex cycle of the end-user industry even as the management has diversified into the food business. The ratings continue to be constrained by the working capital-intensive business, the susceptibility of its profitability margins to growing competition in the industry and the adverse fluctuation in raw material prices. ICRA notes that with the expansion of the food division, the company's ability to scale up its operations and achieve the desired operating parameters remains 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 evaporator system 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 with strong liquidity position - The company's capital structure remained robust with a healthy net worth base (Rs. 185.9 crore as on March 31, 2023) and limited debt requirements. The coverage indicators remain healthy, given its low debt and marginal interest outgo, with interest coverage of 59.05 times and TD/OPBDITA of 0.02 times as on March 31, 2023. Its liquidity position is healthy, supported by undrawn line of credit and unencumbered cash balance and liquid investments of Rs. 51.1 crore as on March 31, 2023.

Reputed clientele and long tenured relations along with track record of repeat business - 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 ensures repeat orders.

Credit challenges

Range-bound scale of operations - The company's operating income has remained in the range of Rs. 100-200 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. 191.5 crore in FY2023, a growth of 16% compared to the previous year. 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 in the current 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 32% as on March 31, 2023 owing to the high inventory holding for its existing and new orders. 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, which keeps the working capital cycle under check, will be a key rating sensitivity.

Intense competition and adverse fluctuations in raw material prices limit 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 to some extent because of its established credentials and ability to provide customised products. Further, its margins are susceptible to the adverse variation in commodity prices such as steel as most of the orders are fixed cost in nature, which puts pressure on the margins at times.

Liquidity position: Strong

ML has a strong liquidity profile, supported by healthy cash accruals, sizeable unencumbered cash balance and liquid investments of Rs. 51.1 crore as of March 2023 and no debt repayments.

Rating sensitivities

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

Negative factors – 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 that significantly impacts the liquidity may lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

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, evaporator 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. It has five manufacturing facilities in Ahmedabad, Gujarat.

In FY2023, the company reported a net profit of Rs. 26.63 crore on an operating income (OI) of Rs. 191.52 crore against a net profit of Rs. 21.24 crore on an OI of Rs. 164.99 crore in the previous year.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	164.99	191.52
PAT	21.24	26.63
OPBDIT/OI	16.71%	19.41%
PAT/OI	12.88%	13.90%
Total outside liabilities/Tangible net worth (times)	0.17	0.21
Total debt/OPBDIT (times)	0.01	0.02
Interest coverage (times)	41.01	59.05

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 30, 2023	Apr 07, 2022	-	Mar 04, 2021
1	**EPC/PCFC**	Long term	0.50	--	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2	**Bank guarantee^**	Long term and short term	30.00	--	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	[ICRA]A (Stable)/[ICRA]A1
3	**Foreign currency exposure**	Long term and short term	0.38	--	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	[ICRA]A (Stable)/[ICRA]A1
4	**Unallocated limits**	Long term and short term	-	--	-	[ICRA]A (Stable)/[ICRA]A1	-	[ICRA]A (Stable)/[ICRA]A1

^includes Rs. 5.00-crore foreign bank guarantee and Rs. 3.50-crore letter of credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
EPC/PCFC	Simple

Bank guarantee	Very Simple
Foreign currency exposure	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	**EPC/PCFC**	NA	NA	NA	0.50	[ICRA]A (Stable)
NA	**Bank guarantee**	NA	NA	NA	30.00	[ICRA]A (Stable)/[ICRA]A1
NA	**Foreign currency exposure**	NA	NA	NA	0.38	[ICRA]A (Stable)/[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 – Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 022 61143441
girishkumar@icraindia.com

Anupama Arora
+91 124 4545303
anupama@icraindia.com

Menka Sabnani
+91 79 40271562
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.