Mazda Limited

October 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	6.00^	4.00^	[ICRA]A (Stable) Reaffirmed; Removed from Issuer Not Cooperating category
Non-fund Based Facilities	18.38	18.38	[ICRA]A (Stable)/ [ICRA]A1 Reaffirmed; Removed from Issuer Not Cooperating category
Unallocated	-	2.00	[ICRA]A (Stable)/[ICRA]A1 Reaffirmed; Removed from Issuer Not Cooperating category
Total	**24.38**	**24.38**	

*Instrument details are provided in Annexure-1

^includes sublimit of Rs. 4.00 crore EPC/PCFC and Rs. 2.00 crore FBD/EBR

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 4.00-crore[1] fund-based limits of Mazda Limited (Mazda)[2] at [ICRA]A (pronounced ICRA A). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating at [ICRA]A1 (pronounced ICRA A one) for the Rs. 18.38-crore non-fund based facility of Mazda. ICRA has also reaffirmed the long-term and short-term ratings to [ICRA]A(Stable)/A1 for the Rs. 2.00 crore unallocated limits of Mazda. Also, the ratings are removed from the 'Issuer not cooperating' category.

Rationale

The ratings reaffirmation takes into account the established position of the company in vacuum and evaporator systems manufacturing business and its established relationship with reputed clientele with history of repeat orders. The ratings positively consider the comfortable capital structure, debt coverage indicators and liquidity position due to low dependence on external debt and considerable liquid investments (Rs. 56.8 crore as on March 31, 2018).

The ratings, however, remain constrained by the company's moderate scale of operations which has witnessed degrowth in last two fiscals leading to moderation in profitability and its working capital intensive nature of business. The profitability margins continue to remain exposed to growing competition in the industry. ICRA also notes that company is undertaking brown field expansion of food division unit which would be funded entirely through mix of liquid investments and internal accruals. However, timely commissioning of the project within budgeted cost and achievement of desired operating parameters remain crucial.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes Mazda Limited will continue to benefit from the extensive experience of the management and the established track record in the engineering segment. The outlook may be revised to Positive if there is a ramp up in company's scale of operations and profitability along with timely execution and stabilisation of the food division capex as per expected parameters, along with moderation in working capital intensity. The outlook may be revised to Negative if there is any material decline in revenues and profitability or higher than expected cost towards food division capex requiring higher than expected dilution in investments or a further stretch in working capital which leads to overall stretch in the liquidity profile.

Key rating drivers

Credit strengths

Established position of company 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 28 years with history of repeat orders from reputed customers. This coupled with continuous R&D capabilities, imparts significant operating flexibility to adapt to changing market conditions. Further, the company also enjoys technical association with Croll Reynolds International Inc, which also remains one of the key shareholders of the company.

Financial profile characterized by robust capital structure, healthy coverage indicators and strong liquidity position: – The capital structure of company remained robust with healthy net worth base (Rs. 124.72 crore as on March 31, 2018) and gearing of 0.02 times as on March 31, 2018 with limited debt requirements. The coverage indicators also remain robust given low debt and marginal interest outgo, with interest coverage of 23.81 times and TD/OPBDITA of 0.19 times for FY2018. The liquidity position of the company remained healthy, supported by undrawn line of credit and liquid investments of Rs. 56.83 crore as on March 31, 2018.

Moderate order book with repetitive orders from existing customers – The company has an order book of Rs. 65.0 crore as on October 15, 2018 which is to be executed in around 6-9 months. Mazda primarily caters to oil refining, chemical, pharmaceuticals, power industry etc. It caters to reputed customers such as Reliance Industries, Limited, Lupin Limited, UPL Limited etc. with moderate customer concentration.

Credit challenges

Stable scale of operations with moderate profitability and high working capital intensity – The operating income of the company registered a de-growth of 10% in FY2017 and 2% in FY2018 to Rs. 110.41 crore in FY2017 and Rs. 108.16 crore in FY2018 from Rs. 122.04 crore in FY2016. This was majorly due to subdued demand outlook in terms of fresh investments in the thermal power sector and growing competition in the industry. Mazda's operating income witnessed muted growth in FY2018 of Rs. 108.16 crore compared to Rs. 110.41 crore in FY2017 due to subdued demand scenario impacted by GST implementation and growing competition in the industry. Consequently, with moderation in scale the operating profitability has moderated to 11.86% in FY2017 and 12.94% in FY2018 compared to 14.75% in FY2016. Mazda incurred capex of ~Rs. 15.30 crore in FY2017 and FY2018 towards purchase of land for expansion of food division and consolidation of engineering units. Accordingly, with decline in profitability and incurred capex, the return indicator of the company declined to 14.65% in FY2017 and 12.58% in FY2018 compared to 18.94% in FY2016. The working capital intensity continued to remain high with NWC/OI of 25% in FY2018 on account of to high level of inventory.

Project implementation risk – Mazda is undertaking a brownfield expansion project for expanding its food division unit to increase the existing capacity at total cost of around Rs. 20.0 crore. The entire capex will be funded through mix of dilution of liquid investments and internal cash accruals. The said capex will expose the company to project execution and stabilisation risks and successful scale up of operations as per the expected parameters.

Intense competition and fragmented industry structure - 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 the company is able to shield itself from the domestic competition upto some extent by virtue of its established credentials and ability to provide customized products.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Originally incorporated as Mazda Controls Private Limited in 1990, Mazda Limited (Mazda) is an Ahmedabad based company which is promoted by Mr. Sorab R. Mody. Presently, Mazda is listed at the Ahmedabad Stock Exchange (ASE) and Bombay Stock Exchange (BSE) with and 40.50% shares held by the promoter and promoter group and 59.50% held by public and corporate bodies () including Croll Reynolds Co. Inc. (Croll)-an US-based manufacturer of engineering products (6.80%). Mazda started its business with 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 Q1FY2011, the company sold off its 'Valves division' to Circor. In FY2007, Mazda 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. Mazda owns four manufacturing facilities in Ahmedabad, Gujarat. Mazda is also undertaking brown field expansion of food division to increase the existing capacity.

In FY2018, the company reported a net profit of Rs. 10.32 crore on an operating income of Rs. 108.16 crore, as compared to a net profit of Rs. 12.78 crore on an operating income of Rs. 110.41 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	110.41	108.16
PAT (Rs. crore)	12.78	10.32
OPBDIT/OI (%)	11.86%	12.94%
RoCE (%)	14.65%	12.58%
Total Debt/TNW (times)	0.02	0.02
Total Debt/OPBDIT (times)	0.16	0.19
Interest coverage (times)	27.83	23.81

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Oct 2018	Chronology of Rating History for the Past 3 Years Date & Rating in FY2019 June 2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Sept 2015	Date & Rating in FY2015 June 2014
1	Cash Credit	Long Term	4.00^		**[ICRA]A (Stable)**	**[ICRA]A (Stable) ISSUER NOT COOPERATING**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
2	Bank Guarantee	Short Term	18.00^^		**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1 ISSUER NOT COOPERATING**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**
3	Foreign Currency Exposure	Short Term	0.38		**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1 ISSUER NOT COOPERATING**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**
4	Unallocated	Long Term/ Short Term	2.00		**[ICRA]A (Stable)/ [ICRA]A1**	-	-	-	-

^includes sublimit of Rs. 4.00 crore EPC/PCFC and Rs. 2.00 crore FBD/EBR,
^^includes Rs. 4.00 crore foreign bank guarantee

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit		NA	NA	4.00^	[ICRA]A (Stable)
NA	Bank Guarantee		NA	NA	18.00^^	[ICRA]A(Stable)/ [ICRA]A1
NA	Foreign Currency Exposure		NA	NA	0.38	[ICRA]A(Stable)/ [ICRA]A1
NA	Unallocated		NA	NA	2.00	[ICRA]A(Stable)/ [ICRA]A1

^includes sublimit of Rs. 4.00 crore EPC/PCFC and Rs. 2.00 crore FBD/EBR,

^^includes Rs. 4.00 crore foreign bank guarantee

Source: Mazda Limited

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About ICRA Limited:

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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.

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