

January 06, 2020

Mazda Limited: Ratings reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to take into account the company's established position in vacuum and evaporator systems manufacturing business and its established relationship with a reputed clientele providing repeat orders. The ratings positively consider the moderate order book position, comfortable capital structure, debt coverage indicators and liquidity position due to low dependence on external debt and considerable liquid investments (Rs. 26.55 crore as on September 30, 2019).

The ratings, however, remain constrained by the company's working capital-intensive nature of business and the susceptibility of profitability margins to growing competition in the industry and adverse fluctuation in raw material prices. ICRA notes that 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 desired operating parameters remain crucial.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that Mazda Limited (ML) will continue to benefit from the company's 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 29 years with a 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, ML enjoys technical association with Croll Reynolds International Inc, which remains one of its key shareholders.

Financial profile characterised by robust capital structure, healthy coverage indicators and strong liquidity position

The company's capital structure remained robust with healthy net worth base (Rs. 126.06 crore as on September 30, 2019) and gearing of 0.01 times as on September 30, 2019 with limited debt requirements. The coverage indicators remain healthy, given its low debt and marginal interest outgo, with interest coverage of 24.91 times and TD/OPBDITA of 0.10 times for FY2019. Its liquidity position remained healthy, supported by undrawn line of credit and unencumbered cash balance as well as liquid investments cumulatively accounting to Rs. 34.95 crore as on September 30, 2019, although the same declined from Rs. 63.07 crore as on March 31, 2018 mainly to fund capital expenditure, buyback of equity shares (Rs. 10.92 crore) and incremental working capital requirements.

Moderate order book with repetitive orders from reputed clientele – The company has an order book of Rs. 104.64 crore as on November 11, 2019 with order book to operating income (FY2019) ratio of 1.01 times, indicating near-term revenue visibility. Further, the clientele includes reputed names such as Siemens Limited, SRF Limited, Triveni Turbine Limited, Hindustan Zinc Limited, etc, with moderate customer concentration.

Credit challenges

Working capital intensive business – The company’s financial risk profile is marked by high working capital intensity with NWC/OI at 34% as on March 31, 2019 owing to high inventory holding for its existing as well as new orders and relatively long receivable cycle. Though the liquidity profile remains robust, with unencumbered cash balance as well as liquid investments and almost no utilisation of cash credit limits; better management of inventory holding and receivables, which keeps working capital cycle under check, will be a key rating sensitivity

Project implementation risk – ML is undertaking a brownfield expansion project for expanding its food division unit to increase the existing capacity at a total cost of around Rs. 22.0 crore. The entire capex will be funded through a 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 will remain important.

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 the domestic competition up to some extent by virtue of its established credentials and ability to provide customised products. Further, its margins are susceptible to adverse variations in commodity prices such as steel mainly because most of the orders are fixed cost in nature, which creates pressure on margins at times.

Liquidity position: Strong

ML has a strong liquidity profile supported by absence of any major debt repayments, cushion in working capital limits and by sizeable unencumbered cash balance and liquid investments cumulatively accounting to Rs. 34.95 crore as on September 2019.

Rating sensitivities

Positive triggers – 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 improvement in working capital cycle.

Negative triggers – Negative pressure on ML’s rating could arise, if there is a decline in scale of operations, along with moderation in profitability and any further stretch in the working capital cycle. Further, higher-than-expected capital expenditure resulting in significant reduction in liquid investments or reliance on external debt for the same 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 rating is based on standalone financial statements

About the company

Originally incorporated as Mazda Controls Private Limited in 1990, Mazda Limited (ML) is an Ahmedabad-based listed company, which is promoted by Mr. Sorab R. Mody. It 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 Q1 FY2011, the company sold off 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 brown field expansion. It operates out of five manufacturing facilities in Ahmedabad, Gujarat.

In FY2019, the company reported a net profit of Rs. 14.10 crore on an operating income (OI) of Rs. 137.93 crore compared to Rs. 10.32 crore and 108.16 crore in FY2018. In H1 FY2020 (provisional financials), it reported a net profit of Rs. 7.18 crore on an OI of Rs. 86.54 crore.

Key financial indicators (audited)

	FY2018	FY2019	H1 FY2020*
Operating Income (Rs. crore)	108.16	137.93	86.54
PAT (Rs. crore)	10.32	14.10	7.18
OPBDIT/ OI (%)	12.94%	13.63%	13.20%
RoCE (%)	12.58%	15.20%	16.04%
Total Debt/ TNW (times)	0.02	0.01	0.01
Total Debt/ OPBDIT (times)	0.19	0.10	0.04
Interest Coverage (times)	23.81	24.91	18.65
NWC/ OI (%)	25%	34%	29%

**provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)		Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 06-Jan-20	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					25-Oct-18	29-Jun-18**	-	31-Dec-16
1 EPC/PCFC	Long Term	4.00	0.27*	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2 Bank Guarantee	Long Term/Short Term	18.00	17.41*	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	[ICRA]A (Stable)/[ICRA]A1
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
4 Unallocated Limits	Long Term/Short Term	2.00	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	-	-
Total		24.38						

[^]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

*Amount outstanding as on September 30, 2019

**Issuer Not Cooperating

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

Source: Mazda Limited

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