

January 07, 2022

MTAR Technologies Limited: Ratings upgraded; outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/ CC	58.00	63.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Long-term Fund-based TL	30.80	110.80	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive)
Long-term/Short-term – Non-fund Based	110.00	110.00	[ICRA]A (Stable)/[ICRA]A1; upgraded from [ICRA]A- (Positive)/[ICRA]A2+
Long-term Unallocated	1.20	1.20	[ICRA]A(Stable); upgraded from [ICRA]A- (Positive)
Total	200.00	285.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the continued improvement in MTAR Technologies Limited's (MTL) financial risk profile, led by healthy revenue growth and profit margins along with a comfortable liquidity position. The company's revenue grew 19% in H1 FY2022 and the growth momentum is expected to continue in H2 FY2022 and FY2023 as well, supported by a pending order book of around Rs. 500 crore as of November 2021 and new incremental orders in the pipeline from domestic and international clients in the near to medium term. Further, the ongoing debt-funded capex of Rs. 105 crore to set up a new sheet metal fabrication plant, which will be operational from Q1 FY2023, will enhance the company's overall execution capability, expand the order book and boost sales growth. This capex is to be funded through a mix of internal accruals and term debt (Rs. 80 crore already sanctioned). Notwithstanding the higher debt levels in the near term, MTAR's debt protection metrics are expected to remain comfortable.

The ratings continue to draw comfort from the extensive experience of the promoters and the company's track record in the precision engineering industry, which caters to various segments, including clean energy, nuclear, space, aerospace and defence. Also, the established relationship with renowned clients, including the Indian Space Research Organisation (ISRO), Bloom Energy Corporation (Bloom), Nuclear Power Corporation of India (NPCIL) and Defence Research and Development Laboratory (DRDL) has ensured repeat orders from its customers over the years. Further, the company is adding new products to its portfolio and adding new clients in all the segments, both of which are expected to augment the revenues. Moreover, as MTL has a strong technical capability and is the sole supplier for several products, it faces restricted competition.

The ratings, however, are constrained by the moderate scale of operations—the revenue was Rs. 246.4 crore in FY2021 and Rs.145.0 crore in H1 FY2021—though the scale has improved significantly over the past few years. The ratings are further constrained by high customer concentration as the company derives a major share of its revenues from one client i.e., Bloom Energy Corporation. Further, the ratings consider the company's working capital-intensive operations owing to the long production and receivables cycle inherent to the industry. The ratings also consider the vulnerability of its margins to the fluctuations in forex rates to the extent of the unhedged position and the margins vary depending on the segment and customer mix.

The Stable outlook reflects ICRA's expectations that the company would continue to maintain its credit profile with an improvement in revenue, profit margins and overall liquidity position.

Key rating drivers and their description

Credit strengths

Established track record in engineering industry – Established in 1970, MTL draws comfort from the vast experience of its promoters and has developed strong in-house R&D capabilities over the years. The company has an established presence in the engineering industry, which caters to varied segments, including clean energy, nuclear power, space, aerospace and defence. MTL is the key supplier of several products to its clients, indicating its expertise in manufacturing niche and quality products, which limits competition.

Reputed client base – The company has a renowned client base, including reputed players such as Bloom Energy Corporation, ISRO, NPCIL, and DRDL. It has established relationship with its customers and has been receiving repeat orders from its clients.

Comfortable order book position – The company has an unexecuted order book of Rs. 516.94 crore, which provides revenue visibility for the near to medium term. Further, the company expects to receive large incremental orders over the next 12 months. The company is adding new products to its portfolio and acquiring clients in various segments, which are expected to augment the revenues going forward. Further, the favourable demand prospects across its end-user segments, given the Government's thrust on indigenisation of production, augur well for the company's long-term growth prospects.

Healthy financial profile – The company's operating income (OI) witnessed a healthy growth of 15% in FY2021 and 19% in H1 FY2022 YoY on the back of a growing order book and timely execution despite supply chain disruptions due to ongoing pandemic. The revenue growth is expected to remain robust in the medium term, given its healthy unexecuted order book. Also, its operating margin has remained healthy at ~30% in FY2021 and H1 FY2022 and is expected to remain at similar levels going forward. Further, the financial profile is comfortable with a strong networth base of Rs. 495 crore and an estimated gearing at 0.2 times and TD/OBDITA of 1.0 times for FY2022.

Credit challenges

Moderate scale of operations with high customer concentration – The company's scale of operations remained moderate, with revenues at Rs. 246.4 in FY2021. However, the revenue has improved significantly over the past few years and is expected to grow at a healthy pace. The company has high customer concentration—it derived more than 50% of its revenues from a single customer, Bloom Energy Corporation. The customer concentration may reduce with the increase in order inflow and execution in other segments such as nuclear and space. A healthy order inflow from domestic clients in the nuclear and space segments and new client acquisition are crucial in reducing the concentration risk over the medium term.

Working capital intensive operations – The company's operations are working capital intensive. Its working capital intensity increased to 60% in H1 FY2022 from 50% in FY2021 due to the increase in debtor and inventory days. The inventory holding was higher (286 days) as of September 2021 as it stocked up raw material to counter any unforeseen supply disruption due to the ongoing pandemic. The company has taken initiatives to reduce the inventory holding period to less than 200 days, although the overall working capital intensity is expected to remain high at ~50-55% in the near term due to a growing order book and a relatively long manufacturing cycle and lead time.

Exposure to fluctuations in forex rates – The company's margins are exposed to the fluctuations in forex rates as the exports are not completely offset by raw material imports and the margins vary depending on the segment and customer mix. However, the margins have remained healthy over the last three years.

Liquidity position: Strong

The company's liquidity position is strong with a healthy cash flow from operations against debt obligations, unutilised proceeds from IPO and undrawn working capital limits of ~Rs. 25 crore as on November 30, 2021. The liquidity is further supported by Rs. 80 crore of term loan sanctioned from HDFC to set up a new facility. As of September 2022, the company has free cash and cash equivalents of Rs.159.5 crore out of which Rs. 69 crore is in monitoring account and the remaining in the form of FDs and investments in mutual funds. The anticipated cash accruals for the company are expected to remain healthy against a repayment obligation of ~Rs. 5.8 crore in FY2022 and Rs. 24.4 crore in FY2023.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to sustain its healthy revenue growth by diversifying its customer base and improving the working capital cycle while maintaining healthy margins and liquidity.

Negative factors – ICRA may downgrade the ratings if any significant reduction in margins or lower-than-expected accruals, or if any stretch in the working capital cycle impact its liquidity position. Specific credit metrics that may downgrade MTL's rating include a TD/OBDITA of more than 2 times on a sustained basis.

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 consolidated financials of the entity. For arriving at the ratings, ICRA has consolidated the financials of MTAR and its wholly owned subsidiary MASPL.

About the company

MTL started as a partnership firm in 1970 and was incorporated as a private limited company in 1999 by Late P. Ravindra Reddy, Sri K. Satyanarayana Reddy and Sri P. Jayaprakash Reddy. The company was publicly listed on the exchanges in March 2021. The company has six manufacturing units, including an EOU in Hyderabad, and has recently started a unit at Adibatla. It primarily manufactures various machine equipment, assemblies, sub-assemblies, precious tools and spare parts for energy, nuclear, space, aerospace, defence and other engineering industries. The company has surface treatment, heat treatment and electroplating facilities. Its plants are ISO 9001:2015 and AS9100C certified. The company incorporated a wholly owned subsidiary, Magnatar Aero Systems Private Limited (MASPL), in FY2020 to reach out to global OEMs who either have defence deals with India or have their business operations in India. However, till date there are no operations in the subsidiary.

Key financial indicators (audited)

MTL Standalone	FY2020	FY2021	H1 FY2022 (Prov)
Operating Income (Rs. crore)	213.8	246.4	145.3
PAT (Rs. crore)	31.3	46.1	27.8
OPBDIT/OI (%)	27.1%	33.8%	30.2%
PAT/OI (%)	14.7%	18.7%	19.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.2	0.3
Total Debt/OPBDIT (times)	0.5	0.2	0.6
Interest Coverage (times)	12.2	11.9	17.1

*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 Sep 30, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					Jan 07, 2022	Apr 21, 2021	Dec 08, 2020	Jul 07, 2020	Jun 17, 2020	Sep 27, 2019	-
1	Cash Credit	Long-term	35.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
2	Export Packing Credit	Long-term	28.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
3	Term Loan	Long-term	110.80	28.20*	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)			
4	Bank Guarantee	Long-term/ Short-term	100.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]BBB+ (Stable) /[ICRA]A2	[ICRA]BBB (Stable) /[ICRA]A3+	-	[ICRA]BBB- (Stable)/ [ICRA]A3	
5	Letter of credit	Long-term/ Short-term	10.00	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]BBB+ (Stable) /[ICRA]A2	[ICRA]BBB (Stable) /[ICRA]A3+	[ICRA]BBB (Stable) /[ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	
6	Unallocated	Long-term	1.20	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-	

*The loan is yet to be disbursed completely

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Non-Fund based	Very simple
Unallocated	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
State Bank of India	Cash Credit	-	-	-	30.00	[ICRA]A (Stable)
HDFC Bank Limited	Cash Credit	-	-	-	5.00	[ICRA]A (Stable)
State Bank of India	Export Packing Credit	-	-	-	28.00	[ICRA]A (Stable)
State Bank of India	Term Loan-1	Jul-2020	-	Mar-2026	30.80	[ICRA]A (Stable)
HDFC Bank Limited	Term Loan-2	Sep-2021	-	Sep-2026	80.00	[ICRA]A (Stable)
State Bank of India	Bank Guarantee	-	-	-	100.00	[ICRA]A (Stable)/ [ICRA]A1
State Bank of India	Letter of Credit	-	-	-	10.00	[ICRA]A (Stable)/ [ICRA]A1
NA	Unallocated	-	-	-	1.20	[ICRA]A (Stable)

Source: MTL

Annexure-2: List of entities considered for consolidated analysis

Company Name	MTAR ownership	Consolidation Approach
MTAR Technologies Limited	Rated entity	Full Consolidation
Magnatar Aero Systems Private Limited	100%	Full Consolidation

Source: MTAR's shareholding pattern ending March 31, 2021

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