

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

October 05, 2021 | Mumbai

MTAR Technologies Limited

Ratings upgraded to 'CRISIL A-/Stable/CRISIL A2+'

Rating Action

Total Bank Loan Facilities Rated	Rs.200 Crore
Long Term Rating	CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')
Short Term Rating	CRISIL A2+ (Upgraded from 'CRISIL A2')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on bank facilities of MTAR Technologies Limited (MTAR) to '**CRISIL A-/Stable/CRISIL A2+**' from 'CRISIL BBB+/Positive/CRISIL A2'.

The rating action reflect MTAR's strong orderbook across product segments providing healthy revenue visibility and expected increase in scale of operations to over Rs 300 crore in current fiscal (year-on-year growth of 16-17%). The upgrade also factors in strengthening of financial risk profile with minimal debt as well as presence of strong liquidity in the form of cash surplus of around Rs194 crore as on March 31, 2021. In fiscal 2022, net cash accrual is expected to increase to Rs 60-70 crore with operating profitability is expected at 31-33% in the medium term.

Revenue grew at CAGR of 25% over last 5 fiscals through 2021 and is expected grow at over 25% in the medium term driven by healthy offtake from its key customer Bloom Energy Corporation (Bloom) and healthy order book with customer such as Nuclear Power Corporation of India Ltd (NPCIL), and Indian Space Research Organization (ISRO). Given critical and technically complex products, MTAR is expected to sustain operating profitability 31-33% in the medium term. As a result, net cash accruals are expected to sustain over to Rs 60 core crore in the medium term.

Given the healthy increase in order book from existing customers like NPCIL and ISRO as well as addition of new orders from various prospective customers, MTAR plans to set up a new facilities in Hyderabad to cater to the increased demand. Total capital expenditure of Rs 105 crore in 2022 for setting up fabrication and sheet metal facility is envisaged. Prudent funding of this capex and healthy cash accruals will support maintaining gearing below 0.20 time in fiscal 2022. Debt protection metrics remain comfortable, with interest coverage and net cash accruals to total debt ratios seen at around 11 times and 2.43 times, respectively in fiscal 2021.

Liquidity is expected to remain comfortable with cash surplus of Rs.194 crore and net cash accruals of Rs 60-70 crores. Bank limit of Rs 58 crore remain utilised at an average of 40% over the six months ended June 2021, short term borrowing is expected to remain low further as the company will be using part of its IPO proceeds to fund its working capital requirements .

Ratings continue to reflect healthy business risk profile of MTAR marked by strong order book, long standing relationship with customers, strong export diversity and healthy operating profitability. The ratings also benefit due robust financial profile bolstered by recent IPO with healthy accruals and debt protection metrics. These strengths are partially offset by large working capital requirement, customer concentration risk and susceptibility to risks inherent in a tender-based business.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has considered the business and financial risk profiles of MTAR Technologies and its wholly owned subsidiaries

Key Rating Drivers & Detailed Description

Strengths:

Established market position with long standing relationship with customers and extensive experience of promoters:

The promoters and management team have diverse industry experience of about 20+ years. MTAR has had a long established relationship with most of its customers like DRDO, NPCIL, LPSC and ISRO spanning more than 35-40 years with repeat orders and a strong trust factor developed over many years of successful business relations. Due to the high technical complexity and know-how, the customers have typically stayed with their preferred and established suppliers over the decades.

Benefits from the promoter's experience and their strong understanding of market dynamics, should continue to support business risk profile. Over the decades, MTAR has developed strong engineering and design capabilities which has helped it in meeting the changing demands from its customers. MTAR has a healthy order book at hand of Rs 354 crore as on June 30, 2021 spanning across its business verticals, aided by its established track record of timely and satisfactory completion of projects. MTAR has received new orders worth Rs 220 crore from Bloom Energy recently and expects to garner business for its new products from existing and new customer, providing healthy revenue growth outlook beyond fiscal 2022 as well. Further, established relationship with its key customer and improving prospects of clean energy will support sustaining healthy growth in the medium.

Diversified revenue profile and healthy operating profitability:

MTAR has a diverse portfolio, catering to multiple segments like clean energy (51% of revenues), defence and aerospace (17%) and nuclear (30%). Healthy unexecuted order book across these segments provides ample revenue visibility over the next 2 fiscals. New clients and capability additions in terms of machining and fabrication are expected to start contributing to revenue from next fiscal onwards. Increased focus on indigenization in defence, space and nuclear power sectors along with strong new product pipeline of MTAR will support the company to further diversify its revenue profile and will be a key rating sensitivity factor.

MTAR has healthy operating profitability of 33.1% which is expected to sustain with benefit of operating leverage and execution of more profitable orders in nuclear, defence and space segments. Despite working capital intensive operation and cautious capital expenditure programs, RoCE of the company remained healthy at over 18% over last two fiscals.

Comfortable financial risk profile:

Net cash accruals are expected to increase to Rs 60-70 crore with increase in scale of operations. Addition of long term debt to fund capex will result in total debt of Rs 87 crore in fiscal 2022 as against Rs 17 crore in fiscal 2021. However due to recent equity raise of Rs 213 crores, the cash and cash equivalents will remain healthy in medium term. Debt metrics will remain comfortable for the rating category with interest cover of 10-11 times and NCA/AD of 70-85% over medium term despite additional debt of Rs 80 crores. Gearing will remain comfortable below 0.3 time in this fiscal as well as going forward. ROCE to be slightly impacted due to capex but is expected to improve as the scale of operations improves.

MTAR is expected to increase its investment over the medium term for capacity expansion and build capabilities for future growth. Size of capital expenditure, and its funding will remain key monitorable.

Weaknesses:

Working capital intensive operations:

GCA days have remained high at around 210-350 days in the last five fiscals, given the higher time taken for completion of projects, MTAR has requirement of high inventory levels as seen across industry peers. Company has taken a proactive approach towards reducing inventory levels over the past few years, by ensuring that only shorter turnaround projects are taken up to ensure product delivery and realization of sales within 4-6 months. We expect the inventory days to remain high ~200-180 days in near term due to supply chain constraints but will reduce to below 150 days on sustained basis over the medium term. Sustenance of inventory holding period over 180-200 days for a prolonged period will be a key rating sensitivity factor.

Susceptibility to risks inherent in a tender-based business and customer concentration risk

Despite a presence of about 50 years, MTAR revenue has remained low over the years, mainly on account of project selection and bidding. Revenue also stagnated on account of lower projects being commissioned by the Government of India. Despite the high growth trajectory witnessed, scale remains modest in fiscal 2021 with revenue at Rs 246 crore.

The business depends on success in bidding for tenders invited by public sector undertakings and research establishments however these account for only 25% of the revenue. These establishments, invite tenders from qualified vendors for their R&D requirement, and commence bulk production on successful completion of product development. Long-term revenue visibility is primarily driven by the success of R&D projects at these establishments and the subsequent mass production of products. Further, with Bloom accounting for more than 60% of its revenues, MTAR will continue to remain exposed to concentration risks.

Liquidity: Strong

Liquidity will remain adequate, driven by expected cash accrual of Rs 60-70 crore and cash and cash equivalents were Rs.194 crore as on March 31, 2021. Bank limit of Rs 58 crore remain utilised at an average of 40% over the 6 months ending June 30, 2021.

Outlook: Stable

CRISIL Ratings believes that MTAR's credit profile will continue to benefit from its established market position and healthy order book along with comfortable financial risk profile.

Rating Sensitivity Factors

Upward factors

- Substantial increase in scale of operations driven by increasing customer diversity while maintaining profitability above 30% on sustained basis i.e. net cash accruals over Rs 70 crore
- Sustenance of healthy financial risk profile with gearing below 0.3 time on sustained basis

Downward factors

- Significant decline in revenue and profitability, or any large debt-funded capex which weakens financial risk profile leading to gearing above 1 time
- Substantial increase in the GCA days beyond 350 days due to sustenance of increased inventory holding period above 180 days

About the Company

MTAR Technologies develops and manufactures components and equipment for the defense, aerospace and nuclear sectors. MTAR was incorporated in 1970 by its 3 promoters Mr PR Reddy, Mr KSN Reddy and Mr PJ Reddy to serve the technical and engineering needs of the Indian government in the post embargo regime. MTAR has manufacturing footprints in Hyderabad with 7 units spread across a 4km radius and a dedicated export facility as well.

For the 3 months ended June 2021, MTAR registered a PAT of Rs 8.7 crore on revenue of Rs 54 crore vs Rs 5.3 crore PAT on revenue of Rs 48.7 crore for the same period last year

Key Financial Indicators

As on March 31	Unit	2021	2020
Revenue	Rs.Crore	246	214
Profit After Tax (PAT)	Rs.Crore	37	31
PAT Margin	%	14.9	14.6
Adjusted debt/Networth	Times	0.04	0.13
Adjusted interest coverage	Times	11.85	13.03

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)*

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	30.00	NA	CRISIL A-/Stable
NA	Export Packing Credit*^	NA	NA	NA	28.00	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	May-2022	5.80	NA	CRISIL A-/Stable
NA	Letter of Credit	NA	NA	NA	10.00	NA	CRISIL A2+
NA	Bank Guarantee	NA	NA	NA	100.00	NA	CRISIL A2+
NA	Working Capital Facility	NA	NA	NA	1.20	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	Jan-2026	25.00	NA	CRISIL A-/Stable

*Interchangeable with PCFC upto Rs 28 crore

^Interchangeable with FBD upto 10 crore

Annexure - Rating History for last 3 Years

Current		2021 (History)		2020		2019		2018		Start of 2018	
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based Facilities	LT	90.0	CRISIL A-/Stable	11-03-21	CRISIL BBB+/Positive	27-11-20	CRISIL BBB+/Stable	--	--	24-08-18	Withdrawn (Issuer Not Cooperating)*
			--	--	--	--	--	--	--	16-07-18	CRISIL C / CRISIL A4

											(Issuer Not Cooperating)*	
Non-Fund Based Facilities	ST	110.0	CRISIL A2+	11-03-21	CRISIL A2	27-11-20	CRISIL A2		--	24-08-18	Withdrawn (Issuer Not Cooperating)*	CRISIL A4 (Issuer Not Cooperating)*
			--		--		--		--	16-07-18	CRISIL A4 (Issuer Not Cooperating)*	--

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	100	CRISIL A2+
Cash Credit	30	CRISIL A-/Stable
Export Packing Credit[^]	28	CRISIL A-/Stable
Letter of Credit	10	CRISIL A2+
Term Loan	5.8	CRISIL A-/Stable
Term Loan	25	CRISIL A-/Stable
Working Capital Facility	1.2	CRISIL A-/Stable

^{*}Interchangeable with PCFC upto Rs 28 crore

[^]Interchangeable with FBD upto 10 crore

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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