Rating Rationale

June 30, 2023 | Mumbai

MTAR Technologies Limited

Ratings Reaffirmed and Withdrawn

Rating Action

Total Bank Loan Facilities Rated	**Rs.285 Crore**
Long Term Rating	**CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)**
Short Term Rating	**CRISIL A2+ (Rating Reaffirmed and Withdrawn)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of MTAR Technologies Limited (MTAR) and subsequently **withdrawn** the ratings on the request of the company and receipt of No Objection Certificates from its lenders. The withdrawal is in-line with CRISIL Ratings' policy on withdrawal of bank loan ratings.

The ratings continue to reflect the strong order pipeline worth Rs 1,189 crore as on March 31, 2023 and expected growth in scale of operations over the medium term. The ratings also factor in the healthy operating efficiency and financial risk profile of MTAR, as indicated by steady profitability and comfortable debt protection metrics. These strengths are partially offset by the increasing working capital intensity of operations leading to negative cash flow generation and exposure to risk posed by customer concentration and those inherent in a tender-based business.

Revenue grew by nearly 78% to Rs 574 crore in fiscal 2023, driven by increasing order book, addition of new customers and increase in share clean energy segment to 84% in FY23 from 77% in FY22. However, the operating margin contracted by nearly 340 basis points (bps) to 26.8% during the same period, on account of decline in gross margins, change in sales mix and increase in employee related expenses.

Financial risk profile remains strong, with interest cover and net cash accrual to adjusted debt (NCA/AD) ratios at 11.91 times and 0.85 time, respectively, as on March 31, 2023. Adjusted gearing (gross debt/adjusted networth) and total outside liabilities to adjusted networth (TOLANW) ratios stood at 0.23 time and 0.71 time, respectively, as on March 31, 2023, increasing from 0.18 time and 0.40 time as on March 31, 2022, on account of increase in overall debt levels for funding working capital and capex requirements.

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.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

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 Defence Research and Development Organization, Nuclear Power Corporation of India, Liquid Propulsion Systems Centre and Indian Space Research Organization spanning more than 35-40 years with repeat orders and a strong trust factor developed over many years of successful business relations. In addition, Bloom Energy which accounts for more than 80.0% of revenues, has been associated with MTAR for over nine years. The company benefits from high repeat orders from its key customer, which has resulted in increase in scale of operations from Rs. 157 crore in fiscal 2018 to Rs. 574 crore in fiscal 2023. 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. Furthermore, established relationship with its key customer and improving prospects of clean energy will support sustaining healthy growth in the medium.

Healthy operating efficiency:

MTAR caters to multiple segments like clean energy (77.0% of revenues), space & defence (16.0%) and nuclear (8.0%). Healthy unexecuted order book of Rs. 1,173 crore as on March 31, 2023, across these segments provides ample revenue visibility over the medium term. New clients and capability additions in terms of sheet metal manufacturing 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 expand its revenue profile. The company has consistently delivered gross margins above 60.0%, while operating margins have been consistently between 28.0% to 34.0% over fiscal 2018 to fiscal 2022. However, operating margins in FY23 witnessed a decline to 26.8% vs 30.26% in FY22 owning to decline in gross margins, change in sales mix and increase in employee related expenses.

Comfortable financial risk profile:
Capital structure is marked by adjusted gearing and TOLANW ratios of 0.23 time and 0.71 time, respectively, as on March 31, 2023. Key debt protection metrics such as interest coverage and NCA/AD will remain comfortable at 11.91 times and 0.85 time, respectively, as on March 31, 2023.

Weaknesses:
Increasing working capital intensity of operations:
Gross current assets (GCAs) days net of cash has risen to 433 days as on March 31, 2023 from 395 days as on March 31, 2022. Consistent increase in inventory to 336 days from 277 days over the past five fiscals and the long gestation period involved in projects/orders led to a sharp rise in GCAs net of cash. Thus, despite operating margin remaining comfortable over the fiscals 2018 to 2023, the cash conversion (cash flow from operations / EBITDA) has been weak, and cash flow from operations has been negative over fiscals 2022 and 2023.

Susceptibility to risks inherent in a tender-based business and customer concentration risk
Despite presence spanning five decades, revenue of MTAR has been low over the years, mainly on account of project selection and bidding. There has also been some stagnation in revenue due to lower projects commissioned by the Government of India. However, Revenue witnessed a growth of 78% to Rs 574 crore in fiscal 2023 in comparison to Rs. 332 crores in fiscal 2022. Business performance depends on success in bidding for tenders invited by public sector undertakings and research establishments, which still accounted for only 31.0% of the revenue.

The clean energy business has become the biggest revenue contributor and growth driver for MTAR since fiscal 2018. However, the entire segment is highly dependent on a single client, Bloom Energy, a global leader in solid oxide fuel cell. Revenue contribution of this client has been consistently over 60.0% during fiscals 2019 to 2023, with the exception in fiscal 2021, whereby contribution declined to 50.0% following a lag effect of the technological shift to hydrogen hot boxes. Share of Bloom Energy in the overall revenue mix will remain above 60.0% over the medium term.

Liquidity: Strong
Cash accruals in fiscal 2023 stood at Rs. 122 crores, that is more than suffice to cover the debt obligations of Rs 25-30 crore. The company also has sufficient cash and cash equivalents of approximately Rs. 59 crores as on March 31, 2023. Working capital requirements to be funded by internal accruals, existing cash surplus and short-term borrowings. MTAR also has access to fund based of Rs. 245 crores, which increased from Rs. 100 crores in January 2023. Average BLU during the last 12 months through is 65.0-70.0% basis recent interaction with the banker.

Outlook: Stable
CRISIL Ratings believes the credit risk profile of MTAR will continue to benefit from its established market position and healthy order book, along with its comfortable financial risk profile.

Rating Sensitivity Factors
Upward factors
- Substantial growth in revenue, driven by greater diversification in the customer base and segmental profile, along with a steady operating margin above 30%.
- Better working capital management with inventory sustaining below 220 days.

Downward factors
- Significant decline in revenue and profitability, leading to lower cash accrual or any large debt-funded capex weakening the financial risk profile.
- Stretch in inventory above 300 days on a sustained basis.

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

Key Financial Indicators

As on March 31	Unit	2023	2022
Revenue	Rs crore	574	322
Profit After Tax (PAT)	Rs. crore	103	61
PAT Margin	%	18	18.9
Adjusted debt/Networth	Times	0.23	0.18
Adjusted interest coverage	Times	11.91	15.25

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where

applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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 (Rating Reaffirmed and Withdrawn)
NA	Export Packing Credit*^	NA	NA	NA	28.00	NA	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
NA	Term Loan	NA	NA	May-2022	5.80	NA	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
NA	Letter of Credit	NA	NA	NA	10.00	NA	CRISIL A2+ (Rating Reaffirmed and Withdrawn)
NA	Bank Guarantee	NA	NA	NA	100.00	NA	CRISIL A2+ (Rating Reaffirmed and Withdrawn)
NA	Working Capital Facility	NA	NA	NA	1.20	NA	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
NA	Term Loan	NA	NA	Jan -2026	25.00	NA	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
NA	Term Loan	NA	NA	Jan - 2026	85.00	NA	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)

**Interchangeable with PCFC upto Rs 28 crore*
^Interchangeable with FBD upto 10 crore

Annexure – List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Magnatar Aero Systems Private Limited	Full consolidation	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	175.0	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)	18-01-23	CRISIL A-/Stable		--	20-10-21	CRISIL A-/Stable	27-11-20	CRISIL BBB+/Stable	Withdrawn (Issuer Not Cooperating)*
			--		--		--	05-10-21	CRISIL A-/Stable		--	--
			--		--		--	11-03-21	CRISIL BBB+/Positive		--	--
Non-Fund Based Facilities	ST	110.0	CRISIL A2+ (Rating Reaffirmed and Withdrawn)	18-01-23	CRISIL A2+		--	20-10-21	CRISIL A2+	27-11-20	CRISIL A2	Withdrawn (Issuer Not Cooperating)*
			--		--		--	05-10-21	CRISIL A2+		--	--
			--		--		--	11-03-21	CRISIL A2		--	--

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)	Name of Lender	Rating
Bank Guarantee	**100**	**State Bank of India**	**CRISIL A2+ (Rating Reaffirmed and Withdrawn)**
Cash Credit	**30**	**State Bank of India**	**CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)**

Export Packing Credit*^	28	State Bank of India	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
Letter of Credit	10	State Bank of India	CRISIL A2+ (Rating Reaffirmed and Withdrawn)
Term Loan	25	State Bank of India	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
Term Loan	85	HDFC Bank Limited	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
Term Loan	5.8	State Bank of India	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)
Working Capital Facility	1.2	State Bank of India	CRISIL A-/Stable (Rating Reaffirmed and Withdrawn)

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Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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