

April 21, 2021

MTAR Technologies Limited: Ratings upgraded; outlook revised to Positive

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

MTAR Technologies Limited (MTL) has recently concluded its initial public offering of Rs. 596.41 crore, which comprised Rs. 123.51 crore of fresh issue and the balance offer for sale (OFS). The company has also undertaken a pre-IPO placement for the sum aggregating to Rs. 100.00 crore. The rating upgrade considers the above equity infusion, along with the company's repayment of its outstanding working capital borrowings, which will improve the capital structure and debt coverage metrics. The rating action also factors in the robust revenue growth in 9MFY2021, backed by healthy improvement in the order book and timely execution of orders. The revenue growth is expected to remain at healthy levels going forward, given its unexecuted order book of Rs. 336.19 crore as of December 2020 and pending large incremental orders from domestic and international clients in the near to medium term. The ratings also consider the comfortable financial profile, with healthy operating profit margins (~30% for 9MFY2021), strong net worth base and healthy debt protection metrics post IPO.

The ratings continue to draw comfort from the extensive experience of the promoters and the company's track record in precision engineering industry, which caters to various segments including power, nuclear, space and defence. Also, the established relationships with renowned clients including the Indian Space Research Organisation (ISRO), Bloom Energy Corporation (Bloom), Nuclear Power Corporation of India (NPCIL), Defence Research and Development Laboratory (DRDL) has ensured repeat orders from its customers over the years. Further, the company is adding new products in its portfolio and acquiring new clients in its aerospace segment, 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, is constrained by the moderate scale of operations—revenue was Rs. 214.2 crore in FY2020 and Rs.178.0 crore in 9MFY2021—though the scale improved significantly over the past few years. The ratings are further constrained by the high customer concentration as the company derives a major share of its revenues from one client i.e., Bloom Energy Corporation. Though the proportion of revenue from Bloom declined in 9MFY2021 (from 66% in FY2020), it was still high at 50%. 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 fluctuations in forex rates to the extent of unhedged position and the margins vary depending on the segment and customer mix.

The positive outlook on the [ICRA]A-/ [ICRA]A2+ ratings reflects ICRA's expectations that the company's operational and financial profile will continue to improve backed by its expanding order book position and scale, and it will maintain healthy profit margins as it is the key supplier for many of the products manufactured by it.

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. 336.19 crore, which provides revenue visibility from near to medium term. Further, the company expects to receive large incremental orders over the next 12 months. The company is adding new products in its portfolio and acquiring new clients in its aerospace segment, 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 annualised growth of 11% to Rs.178.0 crore in 9MFY2021 from Rs. 214.2 crore in FY2020 on the back of timely execution of the order book. The revenue growth is expected to remain robust in the near term, given its healthy unexecuted order book. Also, its operating margin has remained healthy at 27-29% in the past three years and it improved to 30.2% in 9MFY2021. Further, the financial profile is comfortable with a gearing at 0.3 times, interest coverage of 11.1 times and DSCR at 9.7 times as on December 31, 2020.

Fundraising through IPO leading to significant improvement in net worth base and capital structure– The company successfully completed fund raising through IPO & pre-IPO placement in March 2021 and has raised a fresh issue of Rs. 212.9 crore (net proceeds), leading to significant increase in net worth base as on March 2021. The funds raised will be used to repay debt, and fund future working capital requirements and general corporate purpose. The fund raising, along with the repayment of its outstanding working capital borrowings, is expected to improve the capital structure and debt coverage metrics going forward—the net worth base is estimated at ~Rs.467.0 crore and gearing of 0.03 times as on March 31, 2021.

Credit challenges

Moderate scale of operations with high customer concentration – The company's scale of operations remained moderate, with revenue of Rs. 214.2 in FY2020; however, it 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 50% of its revenues from a single customer, Bloom Energy Corporation, in 9MFY2021. However, the company has reduced its concentration on Bloom (from 65% in FY2020), with increase in order inflow and execution from other segments such as nuclear and space. Healthy order inflow from domestic clients in the nuclear and space segments and new client acquisition are crucial to reduce the concentration on Bloom Energy over the near to medium term.

Working capital intensive operations – The company's operations are working capital intensive and its working capital intensity increased to 50% in 9MFY2021 from 31% in FY2020 due to increase in debtor and inventory days. The inventory

holding was higher as on December 2020 as it stocked up raw material and WIP for the orders to be catered over the next few months. The working capital intensity is expected to remain high in the near term as MTL plans to grow at a strong pace.

Exposure to fluctuations in forex rates – The company's margins are exposed to fluctuations in the forex rates as exports are not completely offset by raw material imports and margins vary depending on the segment and customer mix. However, the margins remained healthy, in the range of ~27-29%, over the past three years.

Liquidity position: Strong

The company's liquidity position is strong with healthy cash flow from operations, estimated large free cash and liquid investment of Rs.155.0 crore from IPO proceeds and undrawn working capital limits of Rs. 56.4 crore as of March 2021. The company does not have any major repayment obligations in the near term. Overall, ICRA expects MTL to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company is able to sustain its healthy revenue growth, profitability and working capital cycle while continuing to reduce its customer concentration by strengthening its order book across its customer industries, including energy, space, nuclear, aerospace & defense segments.

Negative factors – Given the Positive outlook, a rating downgrade over the next one year is less likely. However, ICRA may revise the outlook to stable if any significant reduction in margins or lower-than-expected accruals, or if any stretch in the working capital cycle impacts its liquidity position. Specific credit metrics that may downgrade MTL's rating include core ROCE lesser than 16% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

MTL started as a partnership firm in 1970 and was incorporated as a private limited company in 1999 by the Late P. Ravindra Reddy, Sri K. Satyanarayana Reddy and Sri P. Jayaprakash Reddy. The company was publicly listed on exchanges in March 2021. The company has six manufacturing units including an EOU in Hyderabad and has recently started a new unit in 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.

Key financial indicators (audited)

MTL Standalone	FY2019	FY2020	9M FY2021 (Prov)
Operating Income (Rs. crore)	184.1	214.2	178.0
PAT (Rs. crore)	39.2	31.3	28.1
OPBDIT/OI (%)	29.4%	27.3%	30.2%
RoCE (%)	18.6%	20.0%	21.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.5	0.6
Total Debt/OPBDIT (times)	0.5	0.5	0.9
Interest Coverage (times)	12.1	12.3	11.1

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: $PBIT / \text{Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)}$; DSCR: $(PBIT + \text{Mat Credit Entitlements} - \text{Fair Value Gains through P\&L} - \text{Non-cash Extraordinary Gain/Loss}) / (\text{Interest} + \text{Repayments made during the Year})$;

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 of March 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
						Apr-21- 2021	Dec-08-2020	Jul-07-2020	Jun-17- 2020	Sep-27-2019
1	Cash Credit	Long-term	30.00	-	[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- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-
3	Term Loan	Long-term	30.80	12.66*	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)			
4	Bank Guarantee	Long-term/ Short-term	100.00	-	[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- (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- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-	

*The loan is yet to be disbursed completely

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	-	-	-	30.00	[ICRA]A- (Positive)
NA	Export Packing Credit	-	-	-	28.00	[ICRA]A- (Positive)
NA	Term Loan-1	May-2020	-	April-2021	5.80	[ICRA]A- (Positive)
NA	Term Loan-2	July-2020	-	March-2026	25.00	[ICRA]A- (Positive)/[ICRA]A2+
NA	Bank Guarantee	-	-	-	100.00	[ICRA]A- (Positive)/[ICRA]A2+
NA	Letter of Credit	-	-	-	10.00	[ICRA]A- (Positive)
NA	Unallocated	-	-	-	1.20	[ICRA]A- (Positive)

Source: MTL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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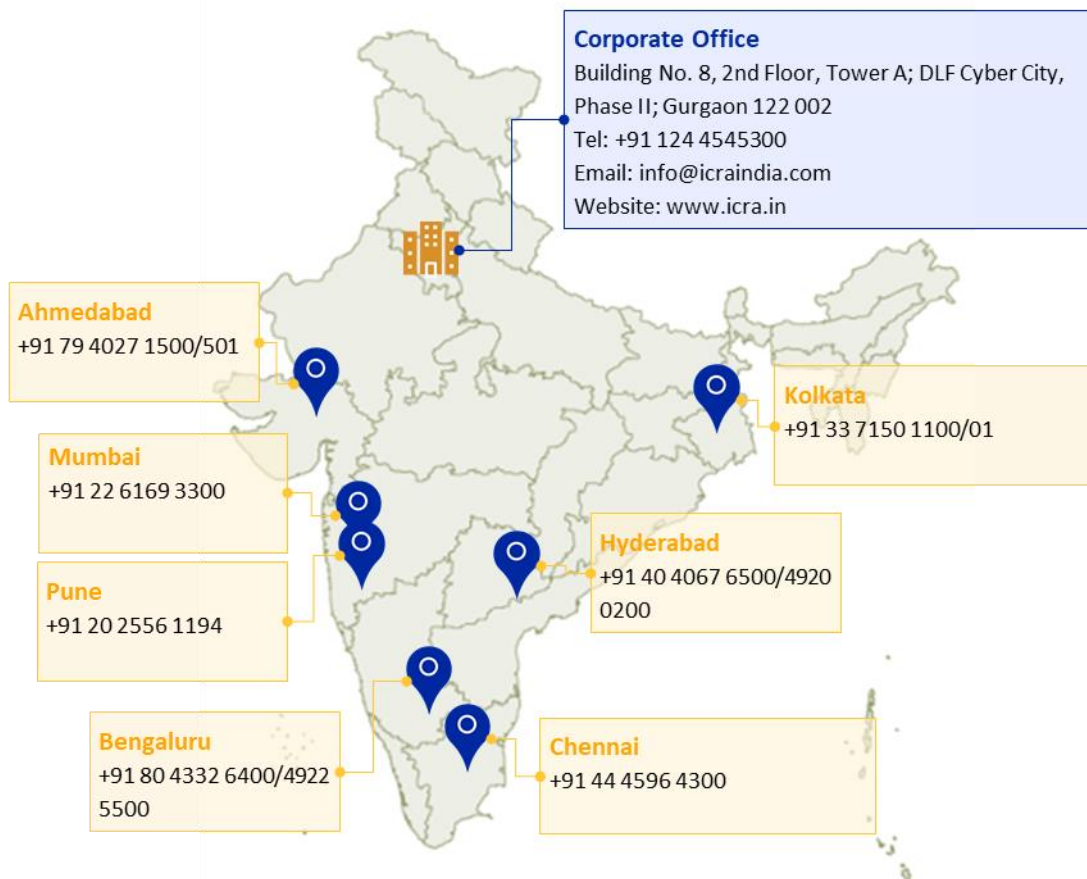


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