

Menon Pistons Limited (Revised)

January 2, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.48	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Assigned
Long Term Bank Facilities	21.00 (Enhanced from 16.00)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short Term Bank Facilities	1.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	35.48 (₹ Thirty-Five Crore and Forty-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings has reaffirmed its ratings on the bank loan facilities of Menon Pistons Limited (MPL); the ratings continue to derive strength from promoters' extensive experience and established customer relationship. Further, the ratings factors in segmental diversification in revenue and above-average profitability margins. The ratings are further supported by comfortable capital structure as well as debt coverage metrics.

These strengths are partially offset by improving yet moderate scale of operations amidst competitive industry landscape, customer concentration risk, moderately large working capital requirements and evolving regulations in the automotive industry.

The ratings factor in MPL's improved operational and financial performance in FY22 (refers to April 1 to March 31) and H1FY23 (Unaudited; refers to period April 1 to September 30) leading to improvement in the credit metrics. The sustenance of the same remains key monitorable going forward. While the recent acquisitions are likely to be margin accretive for MPL, ability to derive envisaged synergies remains to be seen.

Positive Factors: Factors that could lead to positive rating action/upgrade

- Sustained improvement in scale of operations and PBILDT margins resulting in total debt to gross cash accruals (TDGCA) below 1.5x on sustained basis.

Negative Factors: Factors that could lead to negative rating action/downgrade

- Further elongation in the operating capital cycle of the company beyond 160 days resulting in deterioration in liquidity position.
- Any un-envisaged large debt program to fund either capital expenditure (capex)/ acquisitions or working capital requirements resulting in weakening of overall gearing to 0.50x or more.
- Any significantly higher than expected dividend payout leading to adverse impact on the financial position/liquidity.

Outlook: Positive

The positive outlook reflects CARE's expectation of further growth in scale of operations coupled with sustained above-average PBILDT margins resulting in increased cash accruals. The outlook may be revised to 'Stable' in case the company's scale of operations and/or profitability reverts to historical levels. Further working capital cycle will also be a key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of the company: MPL is spearheaded by Mr. Sachin Menon, Chairman and Managing director, who has over three decades of experience in the automotive component manufacturing industry. Under his

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

leadership, the company has maintained healthy relationships with its customers and suppliers resulting in repeated orders and thus establishing a healthy track recording in the manufacturing of pistons/piston assemblies, gudgeon pins and plungers. Further, its group entities also continue to have strong presence in the auto component industry through Menon Piston Rings Private Limited (located: Kolhapur; engaged in manufacturing of Piston Rings), Menon Engineering Services (engaged in providing services related to manufacturing processes) and Menon Exports (exporter of auto components).

Exposure to varied segment: The company has multiple revenue streams. Its product profile is focussed towards tractor and commercial vehicle segment. Further, it sells to original equipment manufacturers (OEMs) – 52% in FY22 (53% in FY21), aftermarket – 20% in FY22 (21% in FY21), export markets through group entity Menon Exports – 27% in FY22 (25% in FY21) and has a small exposure to state transport units. This diversification provides certain benefits in managing downturn in a particular segment.

Above-average profitability: The company's PBILDT margin improved to 16.24% in FY22 from 12.35% in the previous fiscal year on the back of better fixed cost absorption. MPL has reported PBILDT margin of 17.36% in H1FY23 supported by increased machining contribution towards topline. The PBILDT margin is expected to remain above average over the medium term and the sustenance of the same will remain a key monitorable.

Comfortable capital structure and debt coverage metrics: Overall gearing remained below unity at 0.33 times as on March 31, 2022 (0.15 as on March 31, 2021) despite debt-funded capex. The company acquired Lunar Enterprises Private Limited during H1FY23 for a consideration of Rs.15.15 crore which was funded through internal accruals and promoter's funds. The company is expected to incur debt-funded capex towards addition of machineries and installation of solar plant. Nevertheless, the capital structure is expected to remain comfortable over the medium term. Any large debt-funded capex or acquisition may impact the capital structure and remains key monitorable.

The debt protection metrics remained healthy as indicated by interest coverage ratio of over 20 times in FY22 (83.6 times in FY21) and is expected to remain comfortable over the medium term.

Improving yet moderate scale of operations: MPL's revenue increased to Rs.212.44 crore in FY22 (Rs.137.11 in FY21), supported by better demand and acquisition of Rapid Machining Technologies Private Limited (RMPL). The company has booked revenue of Rs.125.2 Cr. in H1FY23. The scale of operation is expected to grow over the medium term and the sustenance of the same will remain key monitorable over the near to medium term.

Key Rating Weaknesses

Intense competitive landscape: Pistons/Pistons assemblies and Gudgeon Pins are critical products in the value chain of automotive manufacturing being engine parts of internal combustion engine (ICE) vehicles. However, intense competition both from large and moderate scale manufactures restricts MPL's scale of operations.

Customer concentration risk: Despite having multiple revenue streams i.e. OEMs, replacement market and exports; the company derives ~50% of its revenue from its top two customers which includes Menon Exports (which in turn derives ~70% of its revenues from only two major customers), its group company and Cummins India Limited. This exposes the company's performance to the orders from few customers which is partially mitigated by its established relationship leading to repeat orders.

Evolving regulations in the automobile industry: The automobile industry has been going through significant changes with regards to emission, safety, insurance and other norms with the last major change being transition from Bharat Stage 4 (BS IV) to Bharat Stage 6 (BS VI). Also, there is an increasing thrust on electrification of mobility to restrict rising greenhouse emissions. Electric vehicles do not require internal combustion engine (ICE) and hence adoption of electric vehicles is inversely correlated to the demand for ICE parts. However, penetration and focus of electrification in tractor, commercial vehicles and heavy duty vehicles segment is currently low which substantially mitigates the risk for MPL.

Liquidity: Adequate

Liquidity is marked by adequate cushion between accruals expected at Rs.32-36 crore against repayment obligations of Rs.6-7 crore over the medium term. With the rise in scale of operations, the incremental working capital requirements have also increased. This along with usage of cash accruals for capex/acquisition and term loan repayments have led to rise in usage of cash credit limits yet remains moderate (average of maximum utilization for last twelve months ended October 2022 was ~78.00%).

Analytical approach: Consolidated

- The company had acquired 100% stake in Rapid Machining Technologies Private Limited and Lunar Enterprises Private Limited in May 2021 and May 2022 respectively. Hence, CARE has followed consolidated analytical approach.
- CARE has analyzed MPL's credit profile by taking consolidated view of the company owing to financial, business and operational linkages between the parent and subsidiary. All the entities operate in the same line of business and under a common management team. The details of the subsidiaries which has been consolidated, is given as Annexure - 6 below.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

MPL was incorporated in August 1977 as a Private Limited company in name of Menon Pistons Private Limited (MPPL) in Kolhapur (Maharashtra) by Menon family and was later listed on Bombay Stock Exchange (BSE). The company, currently spearheaded by Mr. Sachin Menon (CMD) manufactures pistons/piston assemblies (installed capacity of 25 lakh units), gudgeon pins (installed capacity of 19 lakh units) and plungers (installed capacity of 96 thousand units).

Brief Financials (₹ crore)- Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	137.11	212.44	125.19
PBILDIT	16.94	34.50	21.73
PAT	8.94	18.80	12.50
Overall gearing (times)	0.15	0.33	0.37
Interest coverage (times)	83.64	23.23	13.41

A: Audited; UA: Unaudited

Brief Financials (₹ crore)- Standalone	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	137.11	201.06	110.36
PBILDIT	16.94	30.56	17.68
PAT	8.94	17.88	9.95
Overall gearing (times)	0.15	0.29	0.35
Interest coverage (times)	83.64	21.59	12.11

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	20.00	CARE BBB+; Positive
Fund-based - LT-Term Loan	-	-	-	01/08/2027	13.48	CARE BBB+; Positive
Fund-based - ST-EPC/PSC	-	-	-	-	1.00	CARE A2
Non-fund-based - LT-Bank Guarantee	-	-	-	-	1.00	CARE BBB+; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Positive	-	1)CARE BBB+; Positive (23-Dec-21)	1)CARE BBB+; Stable (06-Jan-21)	1)CARE BBB+; Stable (04-Nov-19)
2	Fund-based - ST-EPC/PSC	ST	1.00	CARE A2	-	1)CARE A2 (23-Dec-21)	1)CARE A2 (06-Jan-21)	1)CARE A2 (04-Nov-19)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	-	-	1)Withdrawn (04-Nov-19)
4	Non-fund-based - LT-Bank Guarantee	LT	1.00	CARE BBB+; Positive	-	1)CARE BBB+; Positive (23-Dec-21)	1)CARE BBB+; Stable (06-Jan-21)	1)CARE BBB+; Stable (04-Nov-19)
5	Fund-based - LT-Term Loan	LT	13.48	CARE BBB+; Positive	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities – Not applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)**Annexure 6: List of Subsidiaries and Associate**

Subsidiary	Country of Incorporation	% of Shareholding
Rapid Machining Technologies Private Limited	India	100%
Lunar Enterprises Private Limited	India	100%

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Ashish Kashalkar
Phone: +91-98906 15061
E-mail: Ashish.Kashalkar@careedge.in

Relationship contact

Name: Aakash Jain
Phone: +91-81064 00001
E-mail: aakash.jain@careedge.in

About us:

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