Menon Pistons Limited

January 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	16.00 (Reduced from 19.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1.00 (Reduced from 2.00)	CARE A2 (A Two)	Reaffirmed
Total Facilities	17.00 (Rs. Seventeen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Menon Pistons Limited (MPL) continues to derive strength from strong & experienced promoters, established long track record of the company in manufacturing of pistons, long-term association with reputed clientele and technical collaboration with Korean company Dong Yang Pistons since 2006. The ratings also take into consideration MPL's comfortable capital structure, strong liquidity indicators and debt coverage indicators for the year ended FY20 (A, refers to the period from April 01 to March 31) and H1FY21 (UA, refers to the period from April 01 to September 30).

The rating strengths are however constrained by moderate scale of operations, vulnerability of profitability margins to volatile raw material prices, intense competition from organized and unorganized players and susceptibility to changing regulations in automotive industry.

Rating Sensitivities

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

- Increase in income from operations to Rs.250.00 crore and above with PBILDT margin in the range of 12-14% on a sustained basis

Negative Factor: 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
- Significant deterioration in the PBILDT margin to 9.00x and below
- Any un-envisaged large debt funded capital expenditure resulting in deterioration of overall gearing to 0.50x and above

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of the company

MPL has a long track record of more than three and a half decades and has established itself as a well- known player in manufacturing of pistons, primarily catering to automobile industry (heavy and light commercial vehicles) and heavy duty diesel engines for power generation. MPL is currently managed by second generation of the Menon family and is spearheaded by Mr. Sachin Menon as Chairman and Managing Director (CMD). Mr. Sachin Menon, aged 54 years (B.E Mechanical and MBA) has an experience of more than two and half decades in manufacturing of piston and looks after overall management of the company. The directors are ably supported by a team of qualified and experienced professionals.

Technical collaboration

MPL has a technical collaboration with M/s Dong Yang Pistons, South Korea since April 2006 against a royalty of 1% of value of Alfin pistons sold by MPL. With the help of technical collaboration and latest technology for manufacturing of pistons, MPL has been able to establish excellent relationship with renowned clients.

Comfortable Capital Structure and Debt Protection Metrics

Over the years healthy accretion of profits to the net-worth coupled with absence of any long term debt has resulted into comfortable capital structure as marked by comfortable overall gearing of 0.07x as on March 31, 2020. Further, with low debt profile, the debt coverage indicators of the company can also be classified as comfortable with total debt to GCA of 0.57x during FY20 vis-à-vis 0.33x during FY19 and interest coverage ratio of 41.84x during FY20 and 350x during H1FY21. MPL's ability to maintain its capital structure is the key rating monitorable.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Long association with reputed clientele*, *however customer concentration continues
MPL has a reputed, established and diversified customer base in the domestic and international markets (deemed export through M/s Menon Exports). The company's long established association with large number of strong and reputed customers such as Cummins India Limited, Tata Motors Limited *(CARE AA-; Negative/ CARE A1+; Reaffirmed on August 12, 2020)*, Maruti Suzuki Limited, TAFE Motors & Tractors Limited, Eicher Tractors Limited ensures regular flow of repeat orders, thereby providing revenue visibility to MPL every year. Apart from association with OEMs, MPL's ~20% sale is derived from aftermarket sales where it fetches better margin albeit receivables are slow. MPL manages the credit risk of its customer by extensively assessing their credit quality.

Established presence in auto components industry through group entities
Menon Group has a strong presence in the auto component industry with companies such as 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). MPL derives various advantages from its group companies like cost reduction, in-time delivery, flexibility in production system thereby maximizing sales, strong network of offices and agents overseas.

Key Rating Weaknesses

Moderate scale of operations with stable profitability margins
During FY20 MPL's total operating income (TOI) stood at Rs.117.97 crore registering a y-o-y de-growth of ~25%, on account of the slowdown prevailing in the automobile sector coupled with the transition to BS-VI norms which is going to increase the cost of ownership. Further, during H1FY21, MPL registered y-o-y de-growth of 15.42% in total operating income of Rs.55.77 crore vis-à-vis Rs.65.94 crore in H1FY20. This is due to the global pandemic caused by the outbreak of novel corona virus which came at a time when both the Indian economy and the automobile industry were struggling towards a recovery. However, the TOI and the operating margins during H1FY21 improved in comparison to H2FY20 due to pick up in overall demand from Q2FY21. Further, the profitability margins improved during H1FY20. This is due to cost minimization measures and higher contribution per unit from BS-VI products during H1FY21.

Risk associated with volatility in raw material prices
The key raw materials for MPL comprise of aluminium, nickel, copper, pig iron and silicon which are generally procured from the domestic market. MPL operates in an industry where the raw material cost is one of the major cost drivers (an average of ~41% of total operating income, over the period FY17-FY20) and one of the major components to impact operating margin.

Intense competition from organized and unorganized players
MPL manufactures products and operates in an industry which comprises of several players in the unorganized sector and is also characterized by high degree of fragmentation. There also exist big sized players resulting in intense competition in the industry. The auto component industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production

Changing Regulations in Automotive Industry
MPL is exposed to risks related to changes in regulations in the automotive industry, especially with regard to the transition to electric vehicles resulting in higher R&D expenditure. The transition to BS-VI emission norms during FY20 was a challenging task for the auto-ancillary companies. In the short-to-medium term, the global market is likely to see the trend shift towards hybrid technology, providing companies some time to adapt. MPL is working towards the new emission norms however no major modification of plant and machinery is required for the same. The management is also expected to enter into collaborations with overseas players and develop new products related to electric vehicles industry in the long run.

Liquidity Analysis: Adequate
Liquidity is marked by healthy cash accrual of Rs.9.20 crore in FY20 and un-utilized credit lines (~Rs.16.00 crore), against nil debt repayment obligations for FY21. However on account of high receivable days which stood at 111 days during FY20 (PY: 99 days), MPL's operating cycle deteriorated to 147 days during FY20 (PY: 116 days). Due to the Nation-wide lockdown, the company had pending work of final processing, packing and dispatch of its goods scheduled during March 2020 resulting into higher levels of inventories. Further, due to the lockdown and subsequent closure of the customer plants along with difficulty in getting international shipments during the period, collection was also impacted resulting in higher receivables as on March 31, 2020. The working capital requirements are met through internal accruals and the company is focusing on reducing its reliance on external borrowings. The working capital limit is hardly being utilized in the current year and the utilization for last 12 months ended October 31, 2020 stood at 0.13%. Current ratio improved and stood at 3.33x as on March 31, 2020 as against 2.98x as on March 31, 2019. Free cash and bank balance as on September 30, 2020 stood at Rs.9.63 crore as against Rs.4.39 crore as on March 31, 2020.

Analytical approach: Standalone

Applicable Criteria:
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Criteria for Short Term Instruments

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 Late Mr. Ram Menon and Late Mr. Chandra Menon. In January 13, 1996, Menon Pistons Private Limited was converted into Public Limited Company and was listed on Bombay Stock Exchange (BSE) and subsequently the name of the company was changed into Menon Pistons Limited.

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

Brief Financials (Rs. crore)	FY19 (A)	H1FY20 (UA)	FY20 (A)	H1FY21 (UA)
Total operating income	156.36	65.94	117.97	55.75
PBILDT	18.86	7.21	10.94	7.00
PAT	10.08	3.41	4.39	3.44
Overall gearing (times)	0.06	0.04	0.07	0.00
Interest coverage (times)	44.78	51.50	41.84	350.00

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	1.00	CARE A2
Non-fund-based - LT-Bank Guarantees	-	-	-	1.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Nov-19)	1)CARE BBB+;Stable (03-Oct-18)	1)CARE BBB+; Stable (05-Jan-18)
2.	Fund-based - ST-EPC/PSC	ST	1.00	CARE A2	-	1)CARE A2 (04-Nov-19)	1)CARE A2 (03-Oct-18)	1)CARE A2 (05-Jan-18)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (04-Nov-19)	1)CARE A2 (03-Oct-18)	1)CARE A2 (05-Jan-18)
4.	Non-fund-based - LT-Bank Guarantees	LT	1.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Nov-19)	1)CARE BBB+; Stable (03-Oct-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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