Menon Pistons Limited

October 3, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	21.00	CARE A-; Stable	Revised from CARE BBB+; Positive
Short-term bank facilities	1.00	CARE A2+	Revised from CARE A2
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term and short-term ratings to the bank facilities of Menon Pistons Limited (MPL) takes into consideration continued improvement in MPL's operational and financial risk profiles during FY23 (refers to the period April 1 to March 31) and Q1FY24 (Unaudited; refers to the period April 1 to June 30). This improvement is marked by gradual product diversification through inorganic route, improved profitability, and reduction in the debt level. The ratings continue to derive strength from promoters' extensive experience and established customer relationship.

These rating strengths are partially offset by moderate scale of operations amidst competitive industry landscape, customer concentration risk, susceptibility of profitability to volatility in raw material prices, moderate working capital requirements and evolving regulations in the automotive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in the scale of operations resulting in gross cash accruals (GCA) of over ₹100 crore on a sustained basis.
- Improvement in the business profile characterised by customer diversification and new business acquisition from other automotive segments.

Negative factors

- Any un-envisaged large debt programme to fund either capital expenditure (capex)/ acquisitions or working capital requirements resulting in TDGCA of over 1.25x on a sustained basis.
- Significant dip in the revenue or profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins or stretched working capital cycle resulting in weakening of liquidity.
- Any significantly higher-than-expected dividend payout leading to adverse impact on the financial position/liquidity.

Analytical approach: Consolidated

- The company had acquired 100% stake in Rapid Machining Technologies Private Limited (RMTPL) and Lunar Enterprise Private Limited (LEPL) in July 2021 and May 2022, respectively. Hence, CARE Ratings has followed consolidated analytical approach.
- CARE Ratings has considered consolidated financials of MPL consisting of MPL (Standalone), and its wholly-owned subsidiaries as mentioned in Annexure-6.

Outlook: Stable

Stable outlook reflects the company's ability to maintain its healthy financial risk profile coupled with sustained scale of operations supported by above-average PBILDT margins driven by synergies from recent acquisitions.

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

Detailed description of the key rating drivers:

Key strengths

Improvement in PBILDT margins and financial risk profile

MPL's revenue contribution from machined products increased during FY23 because of recent acquisitions of RMTPL and LEPL. The subsidiaries are majorly into manufacturing of machined product wherein the value addition is high, thus leading to improvement in MPL's consolidated PBILDT margins by 117 bps in FY23 to 17.41% (16.24% in FY22).

Improved operational profile coupled with repayment of term loans and unsecured loans to the tune of ₹20.80 crore led to further strengthening of capital structure and debt protection metrics in FY23. Overall gearing and total outside liabilities (TOL)/ tangible net worth (TNW) improved to 0.48x and 0.10x, respectively, as on March 31, 2023 (0.65x and 0.33x, respectively, as on March 31, 2022). TDGCA and interest coverage remained comfortable at 14.99x and 0.35x in FY23.

CARE Ratings notes that over the medium term, MPL's profitability is expected to be supported by higher value addition/ higher proportion of machined components. This, coupled with no major debt-funded capital expenditure (capex), is expected to result in satisfactory capital structure and debt coverage indicators over the medium term.

Experienced promoters and long track record of the company

MPL is spearheaded by Sachin Menon, Chairman and Managing director, who has over three decades of experience in the automotive component manufacturing industry. Under his 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. Furthermore, its group entities also continue to have strong presence in the auto component industry through Menon Piston Rings Private Limited (located: Kolhapur; engaged in the 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 segments

The company has multiple revenue streams. Its product profile is focussed towards tractor and commercial vehicle segment. Furthermore, it sells to original equipment manufacturers (OEMs) – 56% in FY23 (52% in FY22), aftermarket – 19% in FY23 (20% in FY22), export markets through group entity, Menon Exports – 23% in FY23 (27% in FY22) and has a small exposure to state transport units. This diversification provides certain benefits in managing downturn in a particular segment.

Key weaknesses

Moderate scale of operations

MPL's consolidated revenue increased to ₹251.21 crore in FY23 (₹212.44 crore in FY22), supported by better demand and acquisition of LEPL; however, remained moderate. The company has booked revenue of ₹71.97 crore in Q1FY24. CARE Ratings expects the scale of operation to grow and will continue to monitor the sustenance of the same over the near to medium term.

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 manufacturers restricts MPL's scale of operations.

Customer concentration risk

Despite having multiple revenue streams, i.e., OEMs, replacement market, and exports, the company derives around 40% of its revenue from its top two customers which includes Cummins India Limited and its group company, Menon Exports (which in turn derives around 70% of its revenues from only two major customers). 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 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.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rate fluctuations

Major raw materials include melting steel (M.S) scrap and pig iron. The volatility in commodity prices can significantly affect MPL's raw material costs, and in turn, profitability. The company usually has price pass through mechanism with its clients, which considers the fluctuations in the input prices, though the same occurs with a lag of 3 to 6 months depending upon respective customer. Also, the extent of the pass through is dependent on negotiations. Hence, the time lag and the quantum of pass through may partially impact operating profitability.

Moderate working capital requirements

MPL's working capital cycle remained moderate at 100 days as on March 31, 2023, primarily driven by moderate collection period of 83 days as on March 31, 2023. CARE Ratings expects the working capital requirements to remain moderate over the medium term.

Liquidity: Adequate

The liquidity of MPL is marked by adequate cushion between net cash accruals expected at ₹32-36 crore against minimal repayment pertaining to lease liability over the medium term. Furthermore, the cash flow from the operations is expected to remain positive at more than ₹20 crore annually over the medium term, adequate to fund MPL's capex requirements. The bank limit utilisation is moderate with average of maximum utilisation of 57% over the 12 months through August 31, 2023. The cash and bank balance remained at ₹9.25 crore as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

MPL was incorporated in August 1977 as a private limited company in the name of Menon Pistons Private Limited (MPPL) in Kolhapur (Maharashtra) by the Menon family and was later listed on Bombay Stock Exchange (BSE). Currently spearheaded by Sachin Menon (CMD), the company 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 - MPL	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	212.44	251.21	71.97
PBILDT	34.50	43.73	12.85
PAT	18.80	23.34	7.74
Overall gearing (times)	0.33	0.10	NA
Interest coverage (times)	23.23	14.99	35.68

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore) – Standalone - MPL	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	201.06	208.21	55.93
PBILDT	30.56	31.84	8.64
PAT	17.88	23.64	5.19
Overall gearing (times)	0.28	0.15	NA
Interest coverage (times)	21.59	11.60	20.63

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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 A-; Stable
Fund-based - LT-Term Loan		-	-	NA	0.00	Withdrawn
Fund-based - ST-EPC/PSC		-	-	-	1.00	CARE A2+
Non-fund-based - LT-Bank Guarantee		-	-	-	1.00	CARE A-; Stable

NA: Not applicable

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE BBB+; Positive (02-Jan-23)	1)CARE BBB+; Positive (23-Dec-21)	1)CARE BBB+; Stable (06-Jan-21)
2	Fund-based - ST-EPC/PSC	ST	1.00	CARE A2+	-	1)CARE A2 (02-Jan-23)	1)CARE A2 (23-Dec-21)	1)CARE A2 (06-Jan-21)
3	Non-fund-based - LT-Bank Guarantee	LT	1.00	CARE A-; Stable	-	1)CARE BBB+; Positive (02-Jan-23)	1)CARE BBB+; Positive (23-Dec-21)	1)CARE BBB+; Stable (06-Jan-21)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+; Positive (02-Jan-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: Details of subsidiaries

Subsidiary	Country of Incorporation	% of Shareholding as on March 31, 2023
Rapid Machining Technologies Private Limited	India	100%
Lunar Enterprise Private Limited	India	100%

Note on the 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	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22- 6754-3444 E-mail: ankur.sachdeva@careedge.in	Divyesh Bharat Shah Director **CARE Ratings Limited** Phone: +91-20-4000-9069 E-mail: divyesh.shah@careedge.in Ashish Kashalkar Assistant Director **CARE Ratings Limited** Phone: +91-20-4000-9009 E-mail: Ashish.Kashalkar@careedge.in Sachita More Lead Analyst **CARE Ratings Limited** E-mail: Sachita.More@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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