

Menon Pistons Limited

September 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	13.00	CARE A-; Stable	Assigned
Long-term bank facilities	21.00	CARE A-; Stable	Reaffirmed
Short-term bank facilities	1.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the long-term and short-term ratings to bank facilities of Menon Pistons Limited (MPL) continue to derive strength from promoters' extensive experience, diverse product portfolio, above average profitability, and comfortable financial risk profile. However, 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 and foreign exchange rate fluctuations, moderate working capital requirements, and susceptibility to the risks associated with regulations in the automotive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Un-envisaged large debt programme to fund either capital expenditure (capex)/ acquisitions or working capital requirements resulting in total debt to GCA (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.
- Significantly higher-than-expected dividend payout, adversely impacting the financial position/liquidity.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of MPL consisting of MPL (Standalone), and its two wholly owned subsidiaries as mentioned in Annexure-6.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation of company's ability to maintain its healthy financial risk profile and sustained scale of operations supported by its diverse product basket and long association with the original equipment manufacturers (OEM).

Detailed description of key rating drivers:

Key strengths

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 relationships with its customers and suppliers resulting in repeated orders and thus establishing a long track record in manufacturing pistons/piston assemblies, gudgeon pins, and plungers. 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 piston rings), Menon Engineering Services (engaged in providing services related to manufacturing processes), and Menon Exports (exporter of auto components).

Diverse product portfolio

The company has diverse product offering with focus towards tractor and commercial vehicle segment. It caters to the requirement of OEMs and secondary market with presence in domestic and export markets. In FY24 (refers to period April 1 to March 31) sales to OEMs formed 62% of TOI (56% in FY23), while aftermarket (secondary market) contributed 20% of TOI (19%

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

in FY23), export markets through group entity, Menon Exports contributed 14% of TOI (23% in FY23) and balance through state transport units. This diversification helps the company manage downturn in a particular segment.

Above average profitability

MPL's PBILDT margin remained healthy in range of 16%-18% in last three years owing to the critical nature of auto components manufactured by the company and increased portion of machined components in sales mix. The company's PBILDT margin improved marginally to 17.82% in FY24 from 17.41% in FY23. The profit after tax (PAT) margin was reported higher at 10.34% in FY24 (9.29% in FY23). The improvement was mainly considering better sales mix and improvement in contribution from the subsidiaries, especially Lunar Enterprises Private Limited (LEPL). In Q1FY25 (Unaudited; refers to period April 1 to June 30), PBILDT margin further improved to 19.21% (18.42% in Q1FY24), while PAT margin declined marginally to 10.17% in Q1FY25 (10.68% in Q1FY24).

CARE Ratings expects MPL to maintain its profitability, driven by an increased focus on machined components. Further enhancements are anticipated from the recently completed and upcoming solar power projects.

Comfortable financial risk profile

MPL's capital structure continue to remain comfortable with low reliance on bank debt marked by overall gearing of 0.15x as on March 31, 2024 (0.10x as on March 31, 2023). Debt coverage indicators also remained strong in FY24 with TDGCA of 0.56x (FY23: 0.35x) and interest coverage of 24.10x (FY23: 14.99x). Despite the planned debt-funded capex related to solar power project, MPL's capital structure is expected to remain comfortable in the medium term.

Key weaknesses

Moderate scale of operations

MPL's TOI remained moderate at ₹255.72 crore in FY24 (₹251.21 crore in FY23). TOI marginally declined to ₹69.55 crore in Q1FY25 (₹72.46 crore in Q1FY24). CARE Ratings expects the scale of operations to remain moderate in the near term.

Customer concentration risk

Despite having multiple revenue streams, including OEMs, replacement market, and exports, the company derives around 35% of its revenue from its top two customers, which includes Cummins India Limited and MPL's 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.

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 commodity price volatility 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 input prices, though the same occurs with a lag of three to six months depending upon respective customer. Also, the extent of the pass through depends 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 102 days in FY24 (PY: 100 days), primarily driven by moderate collection period of 86 days as on March 31, 2024. CARE Ratings expects the working capital requirements to remain moderate over the medium term.

Intense competition and susceptibility to risks associated with regulations in automobile industry

MPL faces competition from larger organised players and other unorganised players in the OEM and aftermarket segments, respectively. Pistons/pistons assemblies are critical products in the value chain of automotive manufacturing being engine parts of internal combustion engine (ICE) vehicles. With the increasing focus on electric vehicle, there is diminishing utility of pistons and gudgeon pins. The governments in India and abroad have been continuously updating their policies regarding emission norms, safety norms or supporting off-take in electric vehicles through subsidies and standard operating procedures (SOPs).

Liquidity: Adequate

The company's liquidity is adequate marked by healthy expected GCA of around ₹30 crore against low repayment of ₹1-2 crore in near term. The cash flow from operations for FY24 was ₹28.99 crore (FY23: ₹45.22 crore) and is expected to remain positive over the medium term. The working capital requirements are moderate and the average of monthly utilisation of working capital limit stood at 73.17% for the past 12 months ending June 30, 2024. The company had cash and cash equivalents of ₹2.52 crore as on March 31, 2024. The company's current ratio as on March 31, 2024 stood at 1.86x (2.04x as on March 31, 2023).

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

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[Short Term Instruments](#)

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About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipment

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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	251.21	255.72	69.55
PBILDT	43.73	45.56	13.36
PAT	23.34	26.45	7.07
Overall gearing (times)	0.10	0.15	NA
Interest coverage (times)	14.99	24.10	12.04

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Brief Financials (₹ crore)- Standalone - MPL	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	208.21	208.82	57.30
PBILDT	31.84	31.46	10.40
PAT	23.64	24.20	5.63
Overall gearing (times)	0.15	0.15	NA
Interest coverage (times)	11.60	14.82	9.45

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	20.00	CARE A-; Stable
Fund-based - ST-EPC/PSC		-	-	-	1.00	CARE A2+
Non-fund-based - LT-Bank guarantee		-	-	-	1.00	CARE A-; Stable
Term loan-Long term		-	-	30/09/2029	13.00	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Oct-23)	1)CARE BBB+; Positive (02-Jan-23)	1)CARE BBB+; Positive (23-Dec-21)
2	Fund-based - ST-EPC/PSC	ST	1.00	CARE A2+	-	1)CARE A2+ (03-Oct-23)	1)CARE A2 (02-Jan-23)	1)CARE A2 (23-Dec-21)
3	Non-fund-based - LT-Bank guarantee	LT	1.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Oct-23)	1)CARE BBB+; Positive (02-Jan-23)	1)CARE BBB+; Positive (23-Dec-21)
4	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (03-Oct-23)	1)CARE BBB+; Positive (02-Jan-23)	-
5	Term loan-Long term	LT	13.00	CARE A-; Stable				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

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 guarantee	Simple
4	Term loan-Long term	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Rapid Machining Technologies Private Limited	Full	Subsidiary
2.	Lunar Enterprise Private Limited	Full	Subsidiary

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

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Akhil Goyal Director CARE Ratings Limited Phone: +91-22-6754-3590 E-mail: akhil.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Ashish Kashalkar Assistant Director CARE Ratings Limited Phone: +91-20-4000-9009 E-mail: Ashish.Kashalkar@careedge.in
	Yash Bhide Rating Analyst CARE Ratings Limited E-mail: Yash.bhide@careedge.in

About us:

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