Menon Pistons Limited

December 23, 2021

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings has reaffirmed its ratings on the bank loan facilities of Menon Pistons Limited (MPL) as the ratings continue to derive strength from experienced promoters and long track record of the company as well as established customer relationships along with technical collaboration with Dong Yang Pistons (South Korean company). The business risk profile is additionally strengthened from segmental diversification and improvement in profitability margins to above average level. The ratings are further supported by comfortable capital structure as well as debt coverage metrics despite debt funded capital expenditure (capex).

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.

Rating Sensitivities

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

- Increase in scale of operations i.e. total operating income to Rs.225.00 crore and above along with PBILDT margin in the range of 16-17%, both, on a 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) or working capital requirements resulting in weakening of overall gearing to 0.50x or more.
- Significantly higher than expected dividend payout leading to adverse impact on the financial position and liquidity of the company.
- Expected downturn in the major end use sectors of the company.

Outlook: Positive

Revision in the outlook from 'Stable' to 'Positive' underscores improvement in the business risk profile of the company with increasing scale of operations along with better operating profitability compared to historical levels. CARE expects further improvement in the turnover of the company along with sustained PBILDT margins of atleast 16% going ahead with continued improvement in the working capital cycle.

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 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 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).

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.

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) – 53% in FY21 (53% in FY20, refers

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

to the period between April and March), aftermarket – 21% in FY21 (25% in FY20), export markets through group entity Menon Exports – 25% in FY21 (20% in FY20) and has a small exposure to state transport units. This diversification provides certain benefits in managing downturn in a particular segment.

Improvement in profitability to above average level: The company's operating margin (PBILDT margin) was in the range of in 11% to 13% during FY17 to FY21 (except significant moderation in FY20). Increasing capacity utilization with higher demand has led to favourable economies of scale in H1FY22. Also, the company had rationalized costs in FY21 which has been carried forward in current fiscal i.e. FY22. Resultantly, the company's operating margin improved to 16% in H1FY22 and expected to remain at similar levels going forward. Despite significant rise in input prices, the company has been able to pass on most of the same to its clients supported by price pass through mechanism with its clientele.

Comfortable capital structure and debt coverage metrics: Despite ongoing debt funded capex of Rs.14 crore for installing plant and machineries along with establishing solar power project; and expected capex going forward (~Rs.22 crs, currently at planning stage), the company's overall gearing which was at 0.15x as on March 31, 2021 (0.07x as on March 31, 2020), is expected to remain comfortable. Debt coverage metrics i.e. PBILDT interest coverage (85.39x in FY21 and 41.84x in FY20) and total debt to gross cash accrual (TDGCA; 0.88x in FY21 and 0.57x in FY20) are also expected to moderate but remain comfortable going forward with rise in debt inspite of expected improvement in profitabilty.

Key Rating Weaknesses

Improving yet moderate scale of operations: In FY21, the company recorded growth in turnover with net sales rising by 16.26% Y-o-Y to Rs.134.75 cr, however the same was on a lower base considering de-growth in net sales in FY20 over FY19. The growth was majorly on account of buoyancy in tractor sales and rising exports through its group entity which has continued to impact positively even in FY22, with the company recording net sales of Rs.100.79 crore on consolidated basis and Rs.99.26 crore on standalone basis in H1FY22. Despite the company being estimated to achieve revenue of Rs.190-200 crore in FY22, the scale of operations remains moderate.

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 ~40% of its revenue from its top two customers which includes Menon Exports, its group company. Even Menon Exports derives ~68%-75% of its revenue from its top two customers. This exposes the company's performance to the orders from few customers which is partially mitigated by its established relationship leading to repeated orders.

Working capital intensive operations: Operative cycle of 116-147 days over the last three fiscals though FY21 signifies working capital intensive operations particularly due to moderately large collection period of 91-111 days and moderate inventory cycle of 45-67 days during the same period i.e. FY19-FY21. The receivables cycle is longer in exports, aftermarket as well as sales to public sector entities.

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 segment is currently low which substantially mitigates the risk.

<u>Liquidity: Adequate</u>

Liquidity is marked by adequate cushion between accruals expected at Rs.22-28 crore during FY22-FY24 against sanctioned term loan repayment obligations and expected incremental term loan obligations amounting to Rs.1.83 crore in FY22 which balloons to ~Rs.3.8 crore in FY23 and ~Rs.5.3 crore in FY24. With the rise in scale of operations, the incremental working capital requirements have also increased. This along with usage of cash accruals for capex and term loan repayments have led to rise in usage of cash credit limits yet remains moderate (12 months' Average of maximum utilization during month through Sept 2021 was 58.00% and average utilization during month was 38.91%). The company has modest free cash and cash equivalents of Rs.1.63 crore as on Sept 30, 2021. With an estimated gearing of 0.22x-0.26x as of March 31, 2022, MPL has sufficient gearing headroom, to raise additional debt for its capex and working capital requirements.

Analytical approach: Consolidated

- The company had acquired 100% stake in Rapid Machining Technologies Pvt Ltd in May 2021 and accordingly CARE has revised its analytical approach from Standalone to Consolidated.
- 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. Both entities operate in the same line of business and under a common management team. The details of the subsidiary which has been consolidated as on September 30, 2021, is given as Annexure - 4 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
Auto Ancillary Companies
Manufacturing Companies

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 Ram Menon and Late Chandra Menon and was later listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company, currently spearheaded by Mr. Sachin Menon (CMD) manufactures pistons/piston assemblies (installed capacity of 25 lakh units), gudeon pins (installed capacity of 19 lakh units) and plungers(installed capacity of 96 thousand units).

Brief Financials (Rs. crore) – Consolidated	H1FY22 (UA)
Total operating income	100.93
PBILDT	16.17
PAT	9.47
Overall gearing (times)	0.15
Interest coverage (times)	26.95

UA: Un-Audited

Brief Financials (Rs. crore) - Standalone	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	117.97	137.46	99.54
PBILDT	10.94	17.29	16.03
PAT	4.39	8.94	9.44
Overall gearing (times)	0.07	0.15	0.15
Interest coverage (times)	41.84	85.39	27.17

A: Audited; UA: Un-Audited
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: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	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+; Positive
Fund-based - ST-EPC/PSC		-	-	-	1.00	CARE A2
Non-fund-based - LT-Bank Guarantees		-	-	-	1.00	CARE BBB+; Positive

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (06-Jan-21)	1)CARE BBB+; Stable (04-Nov-19)	1)CARE BBB+; Stable (03-Oct-18)
2	Fund-based - ST-EPC/PSC	ST	1.00	CARE A2	-	1)CARE A2 (06-Jan-21)	1)CARE A2 (04-Nov-19)	1)CARE A2 (03-Oct-18)
3	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	1)Withdrawn (04-Nov-19)	1)CARE A2 (03-Oct-18)
4	Non-fund-based - LT-Bank Guarantees	LT	1.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (06-Jan-21)	1)CARE BBB+; Stable (04-Nov-19)	1)CARE BBB+; Stable (03-Oct-18)

* Long Term / Short Term

Annexure 3: 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 - ST-EPC/PSC	Simple
3	Non-fund-based - LT-Bank Guarantees	Simple

Annexure-4: List of Subsidiaries and Associate

Subsidiary	Country of Incorporation	% of shareholding
RAPID MACHINING TECHNOLOGIES PVT LTD	India	100

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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