

MAK Controls and Systems Private Limited

March 25, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	37.50 (Reduced from 38.88)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	55.00 (Reduced from 57.29)	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	92.50 (Rs. Ninety-Two Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MAK Controls and Systems Private Limited (MAK) continue to factor in vast experience of the promoters, MAK's established and long operational track record of over three decades, its unique product offering supported by in-house research and development capabilities and MAK being placed among the key vendors for various defence projects. The ratings also take into account the comfortable capital structure and strategic partnership with leading engineering groups. The ratings, however, are constrained by the elongated working capital cycle, modest scale of operations and concentrated revenue.

Rating Sensitivities

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

- Consistent improvement in scale of operations through multiple product segments.
- Reduction in client concentration risk

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

- Any major debt-funded capex plan leading to deterioration in gearing above the range of 0.80x to 1.00x.
- Further elongation in collection period leading to continuous deterioration in operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Established operational track record and unique product offering

MAK has been in the business of developing and manufacturing engineering equipment for over three decades. Over the years, MAK has been involved in successfully executing various development projects for the defence segment, which has earned them the preferred vendor status with most defence laboratories for a range of power supply products. Also, MAK is one of the very few companies in the world (only company in India) that manufactures Ground Power Units (GPU) and Air Starter Unit (ASU) for the airline industry.

Reputed clientele in the defense and aviation segment with healthy order book position

The company's clientele includes reputed players in domestic as well export markets and both in the defence and commercial aviation sector which include Indian Air Force, Indian Navy, Indian Military, Heavy Vehicles Factory, Hindustan Aeronautics Limited, Bharat Electronics, Bharat Dynamics Ltd etc. The established position of the company in both domestic and international markets and expertise developed over a period of more than three decades has helped the company in retaining its clients and ensuring repeat orders from its regular clients in the defense and aviation sectors. The order book position of the company however stood healthy at Rs.266 crore as on February 28, 2022, to be executed over the period of FY22-23.

Comfortable capital structure and stable debt coverage indicators

The company's main working capital requirement is in the form of bank guarantee limits which are required to be provided upfront till completion of a particular order. The overall gearing continued to be comfortable at 0.49x as on March 31, 2021. The company was sanctioned CC and BG limits by EXIM bank for execution of order from ELTA during FY20 which have since been closed. The company presently has working capital fund-based limits of Rs.30 crore and non-fund-based limits of Rs. 55 crores. The coverage indicators stood comfortable with the interest coverage at 3.45 times in FY21 and moderate total debt to cash accruals at 3.53x as on March 31, 2021 (PY: 4.89x).

Key Rating Weaknesses

Elongated working capital cycle

The company is engaged in manufacture of capital-intensive products which have a relatively longer gestation period to manufacture, test and deliver. The defence payments are made only after final testing and installation of the products which takes in total around 8-9 months, whereas the execution and payment cycle takes around 3-4 months. This keeps the company's

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

receivables level at around 70-140 days on an average. The operating cycle of the company improved yet stayed elongated at 320 days in FY21 against 478 days in FY20. The elongation in FY20 was mainly on account of the receivables booked from the ELTA project on percentage of completion method and higher inventory stored in wake of supply chain issues that might appear in wake of covid related restrictions.

Improved operational performance in FY21, however revenue continues to be small

The operating income of the company increased by 30% in FY21 yet remained small at Rs. 124 crores (PY: Rs. 95 crores). The improvement comes on the back of increase in Export orders through its subsidiary AIR +MAK and ELTA systems. Most of the major orders undertaken by the company take 12 to 15 months for completion and are recorded on percentage of completion basis. The revenue for H1FY22 stood at Rs. 75.86 crores. Since most of the projects executed are towards the defence sector, the PBILDT margins stood more or less stable.

Liquidity: Adequate - Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations of Rs. 4 crores in the current year. The operating cycle of the company is high due to nature of operations which requires the company to keep sufficient inventory in order to ensure timely supply of critical components. The average cash credit/ packing credit utilization remained comfortable at 73% for the 12-month period ended February 2022. The company has availed the Covid GECL term loan of Rd. 8.50 crore to meet its WC requirements. Cash and bank balance stood at Rs. 2.52 crores as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

Financial Ratios – Non financial Sector

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

MAK Controls and Systems Private Limited (MAK) is a Coimbatore-based company engaged in manufacturing power supply systems and other specialized equipment for various defense projects and ground support equipment (GSE) for defense and commercial aircraft. MAK has a subsidiary in US (Air + Mak Industries, Inc.,) to which MAK supplies fully completed 'knock-down units' of GSEs. The subsidiary in turn re-assembles the same and sells to US airlines (both commercial and defense segments) after testing.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	95.22	124.39	75.86
PBILDT	15.19	17.05	11.08
PAT	7.03	7.31	NA
Overall gearing (times)	0.76	0.49	NA
Interest coverage (times)	3.89	3.46	NA

A – Audited; UA: Unaudited; NA: Not 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: Detailed explanation of covenants of the rated instrument 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	55.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan		-	-	Sep 2024	7.50	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 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	30.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Mar-21)	1)CARE BBB+; Stable (11-Mar-20)	1)CARE BBB+; Stable (25-Feb-19)
2	Fund-based - ST-EPC/PSC	ST	-	-	-	-	1)Withdrawn (11-Mar-20)	1)CARE A2 (25-Feb-19)
3	Non-fund-based - LT/ST-BG/LC	LT/ST*	55.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (25-Mar-21)	1)CARE BBB+; Stable / CARE A2 (11-Mar-20)	1)CARE BBB+; Stable / CARE A2 (25-Feb-19)
4	Fund-based - LT-Term Loan	LT	7.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Mar-21)	1)CARE BBB+; Stable (11-Mar-20)	1)CARE BBB+; Stable (25-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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	Non-fund-based - LT/ ST-BG/LC	Simple

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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