

Menon Pistons Limited

January 05, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long-term bank facilities- Fund Based	25.00	CARE BBB+; Stable (Triple B plus ; Outlook: Stable)	Reaffirmed
Short-term bank facilities- Fund Based	2.00	CARE A2 (A Two)	Reaffirmed
Short-term bank facilities- Non Fund Based	1.00	CARE A2 (A Two)	Reaffirmed
Total	28.00 (Rupees Twenty eight crore only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale

The ratings reaffirmed to the bank facilities of Menon Pistons Limited (MPL) continue to derive strength from experienced promoters and long track record of the company in manufacturing of pistons, long-term association with reputed clientele, technical collaboration with Korean company Dong Yang Pistons since 2006, moderate financial risk profile, comfortable capital structure and healthy debt coverage indicators. The ratings are constrained by vulnerability of profitability margins to volatile raw material prices, working capital intensive nature of operations, overall subdued demand for the auto components and intense competition from organised and unorganised players.

The ability of MPL to improve its scale of operations, sustain its profitability margin while maintaining capital structure along with effective management of working capital are the key rating sensitivities.

Key Rating drivers
Key Rating Strengths
Experienced promoters and long track record of more than three and half decades

Menon Pistons Limited (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 Managing Director (MD). Mr. Sachin Menon, aged 52 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.

Financial risk profile marked by marginal revenue growth, improvement in the profitability margins and comfortable capital structure and debt coverage indicators

The total operating income of MPL stood at Rs.134.44 crore during FY17, registering a marginal y-o-y growth of 2.01% largely led by improvement in demand from the auto industry.

PBILDT margin registered a growth of 221 bps to 11.90% during FY17 led by decrease in raw material cost stood at Rs.54.36 crore (40.44% of TOI in FY17) as against Rs.57.42 crore (43.57% of TOI in FY16). The Debt -equity ratio continued to be nil as on March 31, 2017. The overall gearing as on March31, 2017 improved and stood at 0.21x vis-à-vis 0.28x as on March31, 2016, led by lower utilization of working capital bank borrowings and accretion of profits to net-worth.

The total debt to GCA stood improved to 1.27x during FY17 as compared to 1.89x during FY16 on account of nil term loan and lower utilization of working capital bank borrowings led by relatively lower scale of operations. The operating cycle for the year ending March 31, 2017 stood at 97 days vis-à-vis 98 days for the previous year, largely led by marginal decrease in inventory and collection days.

Diversified supplier and customer base and long term association with reputed clients

MPL's procures its raw material requirement including aluminium, nickel, copper, pig iron and silicon from the domestic market with top five suppliers accounting for 74.20% of its total raw material procurement during FY17 (as against 87.01% of its total raw material procurement during FY16).

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Key Rating Weakness

Working capital intensive nature of operations

MPL operates in the business which depends heavily on working capital borrowings with funds mainly blocked in inventory and receivables. The operating cycle for the year ended March 31, 2017 deteriorated to 97 days during FY17 as against 98 days during FY16. The improvement was partly on days reduction in the inventory days which stood at 55 days and collection period which stood at 81 days.

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 ~46% of total operating income, over the period FY15-FY17) 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

Analytical Approach – Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios-Non Financial Sector](#)

[Rating Methodology : Manufacturing Companies](#)

[Criteria on assigning Outlook to Credit Rating](#)

[Rating Methodology - Auto Ancillary Companies](#)

Company Background

Menon Pistons Limited (MPL) was incorporated in August 1977 as a Private Limited company in name of Menon Pistons Private Limited (MPPL) in Kolhapur (Maharashtra) by 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

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	131.80	134.44
PBILDT	12.78	16.00
PAT	6.95	6.95
Overall gearing (times)	0.28	0.21
Interest coverage (times)	5.14	9.15

Status of non-cooperation with previous CRA – Not Applicable

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

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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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	25.00	CARE BBB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	2.00	CARE A2
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	1.00	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Dec-16) 2)CARE BBB+ (13-Apr-16)	-	1)CARE BBB+ (17-Dec-14)
2.	Fund-based - ST-EPC/PSC	ST	2.00	CARE A2	-	1)CARE A2 (22-Dec-16) 2)CARE A2 (13-Apr-16)	-	1)CARE BBB+ (17-Dec-14)
3.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	1.00	CARE A2	-	1)CARE A2 (22-Dec-16) 2)CARE A2 (13-Apr-16)	-	1)CARE A2 (17-Dec-14)

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