Menon Pistons Limited

October 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities- Fund Based	18.00 (reduced from Rs. 25.00)	**CARE BBB+; Stable (Triple B plus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities –Fund Based	3.00	**CARE A2 (A two)**	**Reaffirmed**
Long Term Bank Facilities –Non Fund Based	1.00	**CARE BBB+; Stable (Triple B plus; Outlook: Stable)**	**Assigned**
Total	**22.00 (Rupees Twenty Two Crore only)**		

#Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Menon Pistons Limited (MPL) take into account, MPL's moderate yet stable scale of operations, comfortable capital structure and strong debt coverage indicators.

The ratings 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.

The ratings also take into account marginal improvement in MPL's scale of operations and profitability during Q1FY19 (unaudited, refers to period from April 01 to June 30) as compared to Q1FY18.

The above rating strengths are constrained by vulnerability of profitability margins to volatile raw material prices, working capital intensive nature of operations, and intense competition from organised and unorganised players.

MPL's ability to improve its scale of operations and profitability margin while maintaining capital structure along with effective management of working capital days are the key rating sensitivities.

Key Rating drivers

Key Rating Strengths

Experienced promoters and long track record

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 Chairman and Managing Director (CMD). Mr. Sachin Menon, aged 53 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 moderate yet stable scale of operations, comfortable capital structure and strong debt coverage indicators

Total Operating Income (TOI) during FY18 stood at Rs. 147.05 crore vis-à-vis Rs. 134.44 crore during FY17, registering a y-o-y growth of 9.37%.

Overall gearing ratio improved and stood at 0.13x as on March 31, 2018 vis-à-vis 0.28x as on March 31, 2017 as a result of reduction in working capital bank borrowings and accretion of profits to reserves. Total Debt to GCA (TDGCA) improved and stood at 0.83x as at the end of FY18 as compared to 1.62x as at the end of FY17 along with improvement in Interest coverage ratio to 15.66x during FY18 as against 9.47x during FY17.

Further during Q1FY19, MPL registered TOI of Rs. 36.92 crore vis-à-vis Rs. 33.93 crore in Q1FY18, with PBILDT margin of 12.78% (Q1FY18 - 10.75%).

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Diversified supplier and customer base and long term association with reputed clients
MPL procures its raw material requirement including aluminium, nickel, copper, pig iron and silicon from the domestic market with top five suppliers accounting for 75.22% of its total raw material procurement during FY18 (as against 74.20% of its total raw material procurement during FY17).
With its well-diversified and reputed customer base MPL generates revenues both from the domestic and exports market. MPL has long term association with various reputed clients such as Cummins India Limited, Tata Motors Limited, Maruti Suzuki Limited, TAFE Motors & Tractors Limited, Eicher Tractors Limited.

Key Rating Weaknesses
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 ~42% of total operating income, over the period FY16-FY18) and one of the major components to impact operating margin.

Working capital intensive nature of operations
MPL operates in the business which is working capital intensive, with funds mainly blocked in inventory and receivables. The operating cycle for the year ended March 31, 2018 deteriorated to 105 days during FY18 as against 87 days during FY17.

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

Industry outlook
Going forward in FY19, CARE Ratings expects the auto industry to continue witnessing healthy growth as the disruptions caused by various policy implementations (demonetization, ban on BS-III vehicles, GST, rate revisions) have almost moderated.
The rapidly globalising world is opening up newer avenues for the transportation industry, especially while it makes a shift towards electric, electronic and hybrid cars, which are deemed more efficient, safe and reliable modes of transportation. Over the next decade, this will lead to newer verticals and opportunities for auto-component manufacturers, who would need to adapt to the change via systematic research and development.

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)	FY17 (A)*	FY18 (A)	Q1FY19 (UA)^
Total operating income	134.44	147.05	36.92
PBILDT	16.57	16.98	4.72
PAT	6.95	7.03	2.51
Overall gearing (times)	0.28	0.13	-
Interest coverage (times)	9.48	15.66	22.48

**Audited, ^Un-audited*

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	18.00	CARE BBB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	2.00	CARE A2
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	1.00	CARE A2
Non-fund-based - LT-Bank Guarantees	-	-	-	1.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Jan-18)	1)CARE BBB+; Stable (22-Dec-16) 2)CARE BBB+ (13-Apr-16)	-
2.	Fund-based - ST-EPC/PSC	ST	2.00	CARE A2	-	1)CARE A2 (05-Jan-18)	1)CARE A2 (22-Dec-16) 2)CARE A2 (13-Apr-16)	-
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	1.00	CARE A2	-	1)CARE A2 (05-Jan-18)	1)CARE A2 (22-Dec-16) 2)CARE A2 (13-Apr-16)	-
4.	Non-fund-based - LT-Bank Guarantees	LT	1.00	CARE BBB+; Stable	-	-	-	-

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