Menon Pistons Limited

November 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities- Fund Based	18.00	**CARE BBB+; Stable (Triple B plus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities – Fund Based	2.00 (reduced from 3.00)	**CARE A2 (A two)**	**Reaffirmed**
Long Term Bank Facilities –Non Fund Based	1.00	**CARE BBB+; Stable (Triple B plus; Outlook: Stable)**	**Reaffirmed**
Total	**21.00 (Rupees Twenty One Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Menon Pistons Limited (MPL) continues to derive strength from strong & experienced promoters, established long track record of the company in manufacturing of pistons, long-term association with reputed clientele, and technical collaboration with Korean company Dong Yang Pistons since 2006.

The ratings also take into consideration MPL's comfortable capital structure and debt coverage indicators for the year ended FY19 (A, refers to the period April 1 to March 31) and H1FY20 (UA, refers to the period April 1 to September 30).

The rating strengths are however constrained by moderate scale of operations, vulnerability of profitability margins to volatile raw material prices, working capital intensive nature of operations, intense competition from organised and unorganised players and changing regulations in automotive industry.

Rating Sensitivities

Positive Factor:

Increase in scale of operation on sustained basis and deriving envisaged benefits from planned capital expenditure

Negative Factor:

Further elongation in working capital cycle of the company and significant decline in profitability

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 54 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.

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.

Comfortable Capital Structure and Debt Protection Metrics

Over the years healthy accretion of profits to its net-worth coupled with absence of any long term debt resulted into comfortable capital structure marked by comfortable overall gearing of 0.06x as on March 31, 2019, total debt to GCA improved and stood at 0.33x during FY19 vis-à-vis 0.83x during FY18. Further, debt coverage indicators remained strong with interest coverage ratio of 44.78x during FY19 mainly backed by lower interest expenses on account of lower utilization of Working Capital Bank borrowings and no long term debt.

MPL's ability to maintain capital structure is key rating monitorable.

Long association with reputed clientele, however customer concentration continues

MPL has a reputed, established and diversified customer base in the domestic and international markets (deemed export through M/s Menon Exports). The company's long established association with large number of strong and reputed

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

customers such as Cummins India Limited, Tata Motors Limited, Maruti Suzuki Limited, TAFE Motors & Tractors Limited, Eicher Tractors Limited ensures regular flow of repeat orders, thereby providing revenue visibility to MPL every year. Apart from association with OEMs, MPL's ~20% sale is derived from aftermarket sales.

Key Rating Weaknesses

Moderate scale of operations with stable profitability margins

Total Operating Income (TOI) during FY19 stood at Rs. 156.35 crore vis-à-vis Rs. 147.05 crore during FY18, registering a y-o-y growth of 6.33% largely driven by increase in sale of gudgeon pins, scrap, plunger & circlips. However 'Piston/piston assemblies' is the major component of total sales which was seen at Rs.118.99 crore i.e 79% of FY19 total revenues. PBILDT margin improved to 12.06% during FY19 (PY:11.54%).

On account of lower utilization of working capital limits during FY19 interest cost declined and stood at Rs. 0.42 crore as against Rs. 1.08 crore in FY18. Depreciation for the year stood at Rs. 4.83 crore. PAT margin improved from 4.78% in FY19 to 6.44% in FY19. Subsequently, GCA improved and stood at Rs.14.56 crore.

During H1FY20, MPL registered TOI of Rs. 65.94 crore vis-à-vis Rs. 76.15 crore in H1FY19 (refers to period April 01 – September 30), with PBILDT margin of 10.96% (H1FY19: 13.17%).

Going forward, the ability of the company to improve its scale of operations and profitability margins through various cost control initiatives undertaken by the company will remain key rating sensitivities.

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 ~44% of total operating income, over the period FY17-FY19) 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. MPL's receivable days during FY19 increased to 99 days from 88 days which led to increase in operating cycle for the year ended March 31, 2019 to 116 days as against 105 days in FY18.

Going forward the ability of the company to improve its working capital cycle will be a key rating sensitivity.

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

Changing Regulations in Automotive Industry

MPL is exposed to risks related to changes in regulations in the automotive industry, especially with regard to the transition to electric vehicles, and/or higher R&D spending. This could have a negative effect on the company's credit profile. This will majorly have an impact over the longer term. In the short-to-medium term, the global market is likely to see the trend shift towards hybrid technology, providing companies some time to adapt.

Industry outlook

In April-August 2019, automobile sales witnessed the sharpest decline of 13.3% y-o-y. Going forward in FY20, CARE Ratings expects demand to pick up from Q3FY20 onwards with various planned product launches, festival demand and pre-buying of automobiles before the implementation of BS-VI norms on April 1, 2020. Also, with higher MSPs announced for FY20, farm income is expected to be marginally higher and encourage rural spending.

Liquidity Indicator: Adequate Liquidity

Adequate liquidity marked by healthy annual accrual of Rs. 14.55 crore in FY19, against nil debt repayment obligations. Furthermore prudent management of working capital is reflected in low utilization of bank limits, which averaged ~13% for the 12 months ended August 31, 2019. Current ratio marginally improved and stood at 2.98x as on March 31, 2019 as against 2.60x as on March 31, 2018. Cash and bank balance as on March 31, 2019 stood at Rs.1.70 crore. and Rs. 2.58 crore as on September 30, 2019.

Analytical Approach – Standalone

Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Rating]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology - Auto Ancillary Companies]

About the Company
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 Late 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)	FY18 (A)*	H1FY19 (UA)*	FY19 (A)*	H1FY20 (UA)^
Total operating income	147.05	76.15	156.35	65.94
PBILDT	16.98	9.98	18.86	7.21
PAT	7.03	5.31	10.07	3.41
Overall gearing (times)	0.13	0.04	0.06	0.04
Interest coverage (times)	15.66	31.19	44.78	51.50

**Audited, ^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

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	-	-	-	0.00	Withdrawn
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	18.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-18)	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 (03-Oct-18)	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)CARE A2 (03-Oct-18)	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	-	1)CARE BBB+; Stable (03-Oct-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

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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