email : info@mtar.in website : www.mtar.in
CIN No : L72200TG1999PLC032836

To, **Date: 24.01.2023**

The Manager **BSE Limited** **P. J. Towers, Dalal Street** **Mumbai-400001.** **(BSE Scrip Code: 543270)**	**The Manager,** **NSE Limited,** **Exchange Plaza, Bandra Kurla Complex,** **Bandra (E), Mumbai- 400051.** **(NSE Symbol: MTARTECH)**

Dear Sir/ Madam,

Sub: Reaffirmed in Credit Rating of MTAR Technologies Limited ("the Company") by CRISIL

Pursuant to Regulation 30(6) read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Regulation"), we would like to inform you that based on rating assessment undertaken by CRISIL, the credit rating of the Company has been reaffirmed.

Rationale: CRISIL Ratings has reaffirmed its 'CRISIL A-/Stable/CRISIL A2+' ratings on the bank facilities of MTAR Technologies Limited (MTAR).

Request you to kindly take the above on records.

Thanking You,

Yours Faithfully

For MTAR Technologies Limited

Shubham Sunil Bagadia
Digitally signed by Shubham Sunil Bagadia
Date: 2023.01.24 17:02:07 +05'30'

Shubham Sunil Bagadia
Company Secretary & Compliance Officer

CRISIL Ratings

Rating Rationale

January 18, 2023 | Mumbai

MTAR Technologies Limited

Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.285 Crore**
Long Term Rating	**CRISIL A-/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A2+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A-/Stable/CRISIL A2+' ratings on the bank facilities of MTAR Technologies Limited (MTAR).

The ratings continue to reflect the strong order pipeline worth Rs 1,289 crore as on September 30, 2022, and expected growth in scale of operations over the medium term. The ratings also factor in the healthy operating efficiency and financial risk profile of MTAR, as indicated by steady profitability and comfortable debt protection metrics. These strengths are partially offset by the increasing working capital intensity of operations leading to negative cash flow generation and exposure to risk posed by customer concentration and those inherent in a tender-based business.

Revenue grew by nearly 31.0% to Rs 322 crore in fiscal 2022, driven by healthy order inflow and execution. The rise in turnover was primarily driven by the clean energy segment, which posted almost 64.0% growth year-on-year. However, the operating margin contracted by nearly 340 basis points (bps) to 30.3% during the same period, on account of increase in raw material prices and employee cost. This was partially offset by the effect of positive operating leverage on other expenses due to increase in scale. Consequently, earnings before interest, tax, depreciation, and amortization (EBITDA) increased by approximately 18.0% to Rs 98 crore during fiscal 2022.

In the first half of fiscal 2023, turnover grew by nearly 49.0% year-on-year to Rs 217 crore, while operating margin contracted to 28.0%, as against 30.0% in the corresponding period of the previous fiscal.

Financial risk profile remains strong, with interest cover and net cash accrual to adjusted debt (NCA/AD) ratios projected at 10.22 times and 0.40 time, respectively, as on March 31, 2023. Adjusted gearing (gross debt/adjusted networth) and total outside liabilities to adjusted networth (TOLANW) ratios stood at 0.18 time and 0.40 time, respectively, as on March 31, 2022. The said metrics are expected to increase to 0.33 time and 0.56 time, respectively, during fiscal 2023, led by increase in debt to fund the capital expenditure (capex).

Analytical Approach

For arriving at its ratings, CRISIL Ratings has considered the business and financial risk profiles of MTAR Technologies and its wholly owned subsidiaries.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position with long standing relationship with customers and extensive experience of promoters:

The promoters and management team have diverse industry experience of about 20+ years. MTAR has had a long established relationship with most of its customers like Defence Research and Development Organization, Nuclear Power Corporation of India, Liquid Propulsion Systems Centre and Indian Space Research Organization spanning more than 35-40 years with repeat orders and a strong trust factor developed over many years of successful business relations. In addition, Bloom Energy which accounts for more than 60.0% of revenues, has been associated with MTAR for over nine years. The company benefits from high repeat orders from its key customer, which has resulted in increase in scale of operations from Rs. 157 crore in fiscal 2018 to Rs. 322 crore in fiscal 2022. Due to the high technical complexity and know-how, the customers have typically stayed with their preferred and established suppliers over the decades. Benefits from the promoter's experience and their strong understanding of market dynamics, should continue to support business risk profile. Over the decades, MTAR has developed strong engineering and design capabilities which has helped it in meeting the changing demands from its customers. Furthermore, established relationship with its key customer and improving prospects of clean energy will support sustaining healthy growth in the medium.

Healthy operating efficiency:
MTAR caters to multiple segments like clean energy (67.0% of revenues), space & defence (17.0%) and nuclear (15.0%). Healthy unexecuted order book of Rs. 1,289 crore as on September 30, 2022, across these segments provides ample revenue visibility over the medium term. New clients and capability additions in terms of sheet metal manufacturing and fabrication are expected to start contributing to revenue from next fiscal onwards. Increased focus on indigenization in defence, space and nuclear power sectors along with strong new product pipeline of MTAR will support the company to further expand its revenue profile. The company has consistently delivered gross margins above 60.0%, while operating margins have been consistently between 28.0% to 34.0% over fiscal 2018 to fiscal 2022. As a result of consistent margins, and increasing order book, MTAR's operating profits have grown from Rs. 32 crore in fiscal 2018 to Rs. 98 crore in fiscal 2022, translating to improvement in return on capital employed (RoCE) from 9.1% in fiscal 2018 to 15.3% in fiscal 2022.

Comfortable financial risk profile:
Capital structure is marked by adjusted gearing and TOLANW ratios of 0.18 time and 0.40 time, respectively, as on March 31, 2022. The aforementioned metrics are expected to increase to 0.33 time and 0.56 time, respectively, as on March 31, 2023, on account of increase in debt to fund the capex. However, given the expected growth in order book, and revenue recognition, both, adjusted gearing and TOLANW, shall improve to 0.28 time and 0.51 time, respectively as on March 31, 2024. Key debt protection metrics such as interest coverage and NCA/AD will remain comfortable at 10.22 times and 0.40 time, respectively, as on March 31, 2023.

Weaknesses:
Increasing working capital intensity of operations:
Gross current assets (GCAs) days net of cash have risen to 377 days as on March 31, 2022 from 307 days as on March 31, 2021 and 235 days as on March 31, 2018. Consistent increase in inventory to 277 days from 136 days over the past five fiscals and the long gestation period involved in projects/orders led to a sharp rise in GCAs net of cash. Thus, despite strong growth in operating margin over the fiscals 2018 to 2022, the cash conversion (cash flow from operations / EBITDA) has been weak, and cash flow from operations has been negative over fiscals 2021 and 2022 and through the first half of fiscal 2023.

Susceptibility to risks inherent in a tender-based business and customer concentration risk
Despite presence spanning five decades, revenue of MTAR has been low over the years, mainly on account of project selection and bidding. There has also been some stagnation in revenue due to lower projects commissioned by the Government of India. Thus, revenue was modest at Rs 322 crore in fiscal 2022, notwithstanding the high growth trajectory witnessed. Business performance depends on success in bidding for tenders invited by public sector undertakings and research establishments, which still accounted for only 31.0% of the revenue.

The clean energy business has become the biggest revenue contributor and growth driver for MTAR since fiscal 2018. However, the entire segment is highly dependent on a single client, Bloom Energy, a global leader in solid oxide fuel cell. Revenue contribution of this client has been consistently over 60.0% during fiscals 2019 to 2022, with the exception in fiscal 2021, whereby contribution declined to 50.0% following a lag effect of the technological shift to hydrogen hot boxes. Share of Bloom Energy in the overall revenue mix will remain above 60.0% over the medium term.

Liquidity: Strong
Expected cash accrual of Rs 76–82 crore over fiscals 2023 and 2024, should more than suffice to cover the debt obligations of Rs 23 crore and Rs 32 crore, respectively. The company also has sufficient cash and cash equivalents of approximately Rs 71 crore as on September 30, 2022. Working capital requirement over the next couple of fiscals, shall be largely met through internal cash accrual and the existing cash surplus, with minimal dependance on short-term debt. Further, MTAR also has access to fund-based limit of Rs 100 crores, which was enhanced from Rs 63 crore in August 2022. Bank limit utilization has averaged 69% over the 12 months through October 2022 (vis-à-vis 40%, on a limit of Rs 58 crore during the six months ended June 30, 2021).

Outlook: Stable
CRISIL Ratings believes the credit risk profile of MTAR will continue to benefit from its established market position and healthy order book, along with its comfortable financial risk profile.

Rating Sensitivity factors
Upward factors
- Substantial growth in revenue, driven by greater diversification in the customer base and segmental profile, along with a steady operating margin above 30%.
- Better working capital management with inventory sustaining below 220 days.

Downward factors

- Significant decline in revenue and profitability, leading to lower cash accrual or any large debt-funded capex weakening the financial risk profile.
- Stretch in inventory above 300 days on a sustained basis.

About the Company

MTAR develops and manufactures components and equipment for the defense, aerospace, nuclear and clean energy sectors. The company was incorporated in 1970 by the promoters, Mr PR Reddy, Mr KSN Reddy and Mr PJ Reddy, to cater to the technical and engineering needs of the Indian government in the post embargo regime. MTAR has manufacturing footprints in Hyderabad with seven units spread across a 4 km radius and a dedicated export facility as well.

For the six months ended September 30, 2022, MTAR registered a profit after tax of Rs 40.9 crore on revenue of Rs 217.2 crore as against Rs 27.8 crore and Rs 145.3 crore, respectively, for the same period in the previous fiscal.

Key Financial Indicators (CRISIL Adjusted)

As on March 31	Unit	2022	2021
Revenue	Rs crore	322	246
Profit after tax (PAT)	Rs. crore	61	46
PAT margin	%	18.9	18.7
Adjusted debt/Networth	Times	0.18	0.04
Adjusted interest coverage	Times	15.25	12.05

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	30.00	NA	CRISIL A-/Stable
NA	Export Packing Credit*^	NA	NA	NA	28.00	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	May-2022	5.80	NA	CRISIL A-/Stable
NA	Letter of Credit	NA	NA	NA	10.00	NA	CRISIL A2+
NA	Bank Guarantee	NA	NA	NA	100.00	NA	CRISIL A2+
NA	Working Capital Facility	NA	NA	NA	1.20	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	Jan-2026	25.00	NA	CRISIL A-/Stable
NA	Term Loan	NA	NA	Jan-2026	85.00	NA	CRISIL A-/Stable

**Interchangeable with PCFC upto Rs 28 crore*
^Interchangeable with FBD upto 10 crore

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Magnatar Aero Systems Private Limited	Full consolidation	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	175.0	CRISIL A-/Stable		--		--	20-10-21	CRISIL A-/Stable	27-11-20	CRISIL BBB+/Stable	Withdrawn (Issuer Not Cooperating)*

			--		--		--	05-10-21	CRISIL A-/Stable		--	--
			--		--		--	11-03-21	CRISIL BBB+/Positive		--	--
Non-Fund Based Facilities	ST	110.0	CRISIL A2+		--		--	20-10-21	CRISIL A2+	27-11-20	CRISIL A2	Withdrawn (Issuer Not Cooperating)*
			--		--		--	05-10-21	CRISIL A2+		--	--
			--		--		--	11-03-21	CRISIL A2		--	--

All amounts are in Rs.Cr.
** - Issuer did not cooperate; based on best-available information*

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	100	State Bank of India	CRISIL A2+
Cash Credit	30	State Bank of India	CRISIL A-/Stable
Export Packing Credit*^	28	State Bank of India	CRISIL A-/Stable
Letter of Credit	10	State Bank of India	CRISIL A2+
Term Loan	85	HDFC Bank Limited	CRISIL A-/Stable
Term Loan	5.8	State Bank of India	CRISIL A-/Stable
Term Loan	25	State Bank of India	CRISIL A-/Stable
Working Capital Facility	1.2	State Bank of India	CRISIL A-/Stable

This Annexure has been updated on 18-Jan-2023 in line with the lender-wise facility details as on 19-Oct-2021 received from the rated entity.
**Interchangeable with PCFC upto Rs 28 crore*
^Interchangeable with FBD upto 10 crore

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

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