

Rating Rationale

March 31, 2023 | Mumbai

MSS India Private Limited

Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL A/Stable (Reaffirmed)
Short Term Rating	CRISIL A1 (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 A1' ratings on the bank loan facilities of MSS India Pvt. Ltd (MSS India).

The reaffirmation factors in steady operating performance and healthy financial risk profile. The operating income has improved after the pandemic due to increase in demand and addition of new capacity and is expected to be above Rs 700 crore in fiscal 2023 with operating margins of ~12%. The operating income for fiscal 2022 was at ~Rs 650 crore, in line with expectations. The operating income is expected to growth at healthy double-digit rate over the medium term while maintaining operating margins of 11-12%.

The financial risk profile remains strong supported by nil debt. The total outside liabilities to net worth (TOL/TNW) ratio remained below 1 time as on March 31, 2022 and expected to remain below 0.7 times as on March 31, 2023. Liquidity of the company remains strong with unencumbered cash of Rs 31 crores as on Jan 2023 and low fund-based bank limit utilisation.

The ratings continue to reflect the company's established market position in the electrical components industry and comfortable financial risk profile. These strengths are partially offset by moderate working capital cycle, susceptibility of profitability to changes in product mix, and volatility in raw material prices and foreign exchange (forex) rates.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has considered the standalone business and financial risk profile of MSS India.

Key Rating Drivers & Detailed Description

Strengths:

- Established market position:** MSS India has a strong track record and established relationships with clients in the electrical components industry, including reputed brands such as ABB, Siemens and Schneider. These are large multinational companies and MSS India caters to their requirements across geographies. As a result, exports contribute to around 70-75% of revenue.

The company had orders of around Rs 200 crore as of Jan 2023, which is expected to be executed in 3-4 months. The overall revenue for fiscal 2023 is expected to cross the Rs 700 crore mark.

Over the years, good rapport with clients facilitated direct sales to customers in Europe and helped MSS India build its own customer base and reduce dependence on group companies. The company has also diversified its geographic reach over the years and now has presence across the America and Asia (outside India). These relationships with clients will continue to support MSS India's scalability and future growth.

- Strong financial risk profile:** The company has comfortable capital structure supported by nil debt. The net worth position improved over the years and is expected to be ~Rs 250 crore as on March 31, 2023, backed by no dividend payout. No dividend payout is expected over the next 3-4 years.

The total outside liabilities to net worth (TOL/TNW) ratio expected to remain below 0.7 as on March 31, 2023 and healthy debt protection measures. The capital structure is expected to be sustained in absence of large debt funded capital expenditure (capex) plans.

Weaknesses:

- Susceptibility of profitability to volatility in raw material prices, forex rates and government policies:** Despite healthy revenue growth over the years, MSS India's profitability remained moderate, and it is vulnerable to volatility in

raw material prices, and fluctuations in forex rates.

Operating margin was impacted in fiscal 2021 (11.3% vis-a-vis 15.1% in fiscal 2020) due to the discontinuation of MEIS. Under this scheme, MSS India had received Rs 8 crore as annual incentive in fiscal 2020, which remained capped at Rs 2 crore in fiscal 2021. The company's profitability will remain susceptible to changes in government policies.

The company imports 40% of its raw material, largely copper and the copper prices are volatile. Although the company places orders with suppliers only on order confirmation by customers, any significant change in raw material prices could impact the product pricing and hence the company's advantage over competitors.

Also, around 70-75% of revenue comes from exports, and about 40% of raw material is imported, providing a partial natural hedge for forex exposure. Additionally, the company enters into forward contracts to hedge its export receivables. Operating profitability, which ranged between 10- 15% in the past five fiscals, was supported to the extent of 1.5-3% by forex gain. Any adverse movement in forex rates can impact profitability and hence the financial risk profile.

- **Moderate working capital cycle:** Though, gross current assets (GCA; net off cash) have improved in fiscal 2022 and stood at 155 days as compared to 192 days as on March 31, 2021. The GCA (net off cash) still remain at higher levels at 150-160 days as compared to around 130 days before pandemic. Order execution cycle is usually 60-90 days, with the company maintaining inventory of 70-80 days. Receivables have increased to ~80 days from ~60 days pre pandemic due to discontinuation of bill discounting scheme. Additionally, the customers are large established companies such as Exide Industries, Siemens, Lucy Electric, and GE Power, where the certainty of receivables is high. All the inventory is order backed, thereby limiting the impact of volatility in raw material prices on profitability. However, any increase in GCA days will remain a monitorable.

Liquidity: Strong

Liquidity is supported by moderate cash accrual, low bank limit utilisation and adequate cash and cash equivalent of around Rs 30 crore as on Jan 2023. Accruals are expected to be at Rs 60-70 crore, while there are no long-term debt obligations. Average utilization of the fund-based bank limits is low at below 20% through 12 months period ending Jan 2023. Capex is expected to be moderate at around Rs 10-15 crore annually to be funded through internal cash accrual.

Outlook: Stable

CRISIL Ratings believes MSS India will benefit from its established market position. The financial risk profile should remain comfortable, backed by steady accruals and no large debt-funded capex plan.

Rating Sensitivity factors

Upward factors:

- Sustained growth in scale of operations along with improvement in operating profitability
- No dividend payout resulting in higher cash accrual
- Improvement in working capital cycle to around 150 days

Downward factors:

- Significant decline in operating performance such as decline in revenue or profitability
- Larger-than-expected capex or substantial dividend payment
- Deterioration in working capital cycle to over 200 days leading to higher debt and weakening of financial risk profile.

About the Company

MSS India, part of the UK-based MSS - Bryden group, manufactures electrical components, battery components, and DC bus bar systems at its facilities in Nasik, Maharashtra. The company is a wholly owned subsidiary of Bryden, which is the MSS group's holding company. As part of its forward integration and diversification initiative, Bryden set up MSS India in 1998 to benefit from India's cost competitiveness. MSS India is the largest manufacturing base of the group.

In fiscal 2022, 64% of revenue came from the electrical components segment, while battery components and DC bus bar systems contributed 28% and 8%, respectively.

About the Group

The MSS - Bryden group, privately owned and headquartered in Bolton, UK, mainly trades in copper and other non-ferrous metals as well as electrical components.

Key Financial Indicators

Financials as on / for the period ended March 31		2022	2021
Revenue	Rs crore	649	413
Profit after tax (PAT)	Rs crore	38	22
PAT margin	%	5.9	5.4
Adjusted debt/adjusted networkth	Times	NA	0.09
Interest coverage	Times	50.04	27.86

Note: The company has achieved operating income of around Rs 660 crore as on feb, 2023.

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 crore)	Complexity level	Rating Assigned with Outlook
NA	Cash credit*	NA	NA	NA	5.00	NA	CRISIL A/Stable
NA	Letter of credit & bank guarantee	NA	NA	NA	10.00	NA	CRISIL A1
NA	Non-Fund Based Limit**	NA	NA	NA	12.00	NA	CRISIL A1
NA	Short Term Loan	NA	NA	NA	15.00	NA	CRISIL A1
NA	Proposed Letter of credit & bank guarantee	NA	NA	NA	8.00	NA	CRISIL A1

*Interchangeable with export packing credit/export bill discounting (within cash credit limit) to the extent of Rs 5.00 crore and with pre-shipment credit in foreign currency to the extent of Rs 5.00 crore.

**Non fund Limit includes Rs 2.00 crores of Capex LC and Rs 10.00 crores of Forward Contract. _

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	20.0	CRISIL A1 / CRISIL A/Stable		--	31-01-22	CRISIL A1 / CRISIL A/Stable		--	26-10-20	CRISIL A1 / CRISIL A/Stable	CRISIL A1 / CRISIL A/Stable
Non-Fund Based Facilities	ST	30.0	CRISIL A1		--	31-01-22	CRISIL A1		--	26-10-20	CRISIL A1 / CRISIL A/Stable	CRISIL A1 / CRISIL A/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit ^{&}	5	State Bank of India	CRISIL A/Stable
Letter of credit & Bank Guarantee	10	State Bank of India	CRISIL A1
Non-Fund Based Limit [^]	12	State Bank of India	CRISIL A1
Proposed Letter of Credit & Bank Guarantee	8	Not Applicable	CRISIL A1
Short Term Loan	7.85	ICICI Bank Limited	CRISIL A1
Short Term Loan	7.15	ICICI Bank Limited	CRISIL A1

This Annexure has been updated on 31-Mar-23 in line with the lender-wise facility details as on 31-Jan-22 received from the rated entity

& - Interchangeable with export packing credit/export bill discounting (within cash credit limit) to the extent of Rs 5.00 crore and with pre-shipment credit in foreign currency to the extent of Rs 5.00 crore.

[^] - Non fund Limit includes Rs 2.00 crores of Capex LC and Rs 10.00 crores of Forward Contract.

Criteria Details

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

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