

## Rating Rationale

January 29, 2024 | Mumbai

### MSS India Private Limited

Ratings reaffirmed at 'CRISIL A/Stable/CRISIL A1'

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.50 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1 (Reaffirmed)</b>

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 facilities of MSS India Pvt Ltd (MSS India).

The reaffirmation factors in steady operating performance and healthy financial risk profile. Operating income increased by 12% in fiscal 2023 on a high base of fiscal 2022, with operating margin of ~14%. The operating income is expected to growth at a healthy rate over the medium term while maintaining operating margin at 12-13%.

The financial risk profile remains strong supported by nil debt. Total outside liabilities to tangible network (TOLTNW) ratio was below 0.8 time as on March 31, 2023, and is expected below 1 time over the medium term. Liquidity of the company remains healthy with cash and equivalent of Rs 38 crore as on March 31, 2023, and low 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, and susceptibility of profitability to volatility in raw material prices and foreign exchange (forex) rates.

#### Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles 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, export contributes to 75-80% of revenue.

The company had orders of around Rs 170 crore as of November 2023 to be executed in 2-3 months. Revenue is expected around Rs 750 crore in fiscal 2024.

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

- **Strong financial risk profile:** The company has a comfortable capital structure supported by nil debt. Networth is expected to improve to above Rs 300 crore as on March 31, 2024, backed by no dividend payout. No dividend payout is expected over the next 3-4 years.

The TOLTNW ratio expected below 0.7 time as on March 31, 2024, and debt protection metrics will remain comfortable. The financial risk profile will sustain in the 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) because of the discontinuation of Merchandise Exports from India Scheme (MEIS). Under this scheme, MSS India received Rs 8 crore as annual

incentive in fiscal 2020, which was capped at Rs 2 crore in fiscal 2021. Thus, profitability is susceptible to changes in government policies.

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

Also, 75-80% of the revenue comes from export and 40-50% of raw material is imported, providing partial natural hedge for forex exposure. The company enters into forward contracts to hedge its export receivables. Operating margin, which ranged between 10% and 15% in the past five fiscals, was supported by forex gain of 1.5-3.0%. Adverse movement in forex rates can impact profitability and the financial risk profile.

- **Moderate working capital cycle:** gross current assets (GCA; net off cash) have stretched and stood at 181 days in fiscal 2023 as compared to 155 days in fiscal 2022. Order execution cycle is usually 60-90 days, with the company maintaining inventory of around 90 days. Receivables have increased to ~85 days from ~60 days pre-Covid owing to discontinuation of bill discounting scheme. Additionally, customers are large established players such as Exide Industries, Siemens, Lucy Electric and GE Power, where the certainty of receivables is high. All the inventory is order backed, limiting the impact of volatility in raw material prices on profitability. However, increase in GCAs will remain a monitorable.

#### **Liquidity: Strong**

Liquidity was healthy supported by moderate cash accrual, low bank limit utilisation and adequate cash and equivalent of around Rs 38 crore as on March 31, 2023. Cash accrual, expected at Rs 70-80 crore per annum, will sufficiently cover working capital requirement and planned capex of Rs 60 crore for plant capacity enhancement in fiscal 2025. Fund-based bank limit (Rs 30 crore) utilisation was low below 10% for the 12 months through December 2023.

#### **Outlook: Stable**

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

#### **Rating Sensitivity factors**

##### **Upward factors:**

- Significant 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 on a sustained basis.

##### **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 250 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 and battery components, and DC bus bar systems in Nasik, Maharashtra. The company is a wholly owned subsidiary of Bryden (UK) Ltd, 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.

Around 60% of Bryden (UK) Ltd, promoter of the MSS group, has been acquired by a private equity firm, Stellex Capital Management LLC (Stellex), in June 2023. Stellex invests in middle-market companies in North America and Europe. It has a strong track record of catalyzing growth and supporting companies to become leading enterprises through operational transformations. The holding company, Bryden (UK) Ltd, was renamed as Chambertin Capital (UK) Ltd on August 18, 2023.

In fiscal 2023, around 62% of the revenue came from the electrical components segment, while battery components and DC bus bar systems contributed 26% and 12%, 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**

As on/for the period ended March 31	Unit	2023	2022
Revenue	Rs.Crore	727	649
Profit After Tax (PAT)	Rs.Crore	63	38
PAT Margin	%	8.7	5.9
Adjusted debt/adjusted networkth	Times	NA	NA
Interest coverage	Times	54.0	50.0

Note: The company has achieved operating income of around Rs 480 crore as of November 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](http://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	15.00	NA	CRISIL A/Stable
NA	Letter of Credit	NA	NA	NA	7.00	NA	CRISIL A1
NA	Non-Fund Based Limit**	NA	NA	NA	10.00	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	3.00	NA	CRISIL A1

\*Interchangeable with export packing credit (within cash credit limit) to the extent of Rs 15 crore and with pre-shipment credit in foreign currency to the extent of Rs.15 crore.

\*\*Includes Rs.10 crore of credit exposure limit.

#### Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	30.0	CRISIL A1/ CRISIL A/Stable		--	31-03-23	CRISIL A1/ CRISIL A/Stable	31-01-22	CRISIL A1/ CRISIL A/Stable		--	CRISIL A1/ CRISIL A/Stable
Non-Fund Based Facilities	ST	20.0	CRISIL A1		--	31-03-23	CRISIL A1	31-01-22	CRISIL A1		--	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*	15	State Bank of India	CRISIL A/Stable
Letter of Credit	7	State Bank of India	CRISIL A1
Non-Fund Based Limit**	10	State Bank of India	CRISIL A1
Proposed Letter of Credit & Bank Guarantee	3	Not Applicable	CRISIL A1
Short Term Loan	15	ICICI Bank Limited	CRISIL A1

\*Interchangeable with export packing credit (within cash credit limit) to the extent of Rs 15 crore and with pre-shipment credit in foreign currency to the extent of Rs.15 crore.

\*\*Includes Rs.10 crore of credit exposure limit.

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Engineering Sector</a>

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