May 03, 2023

Micropack Private Limited: Ratings assigned

Summary of rating action

Instrument^	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Term Loan	15.00	[ICRA]BBB+ (Stable); assigned
Long-term/Short-term- Unallocated amount	37.00	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Total	**52.00**	

^Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Micropack Private Limited (MPL) factors in the company's established track record in the printed circuit board (PCB) business with focus on high density interconnect (HDI) PCBs used in defence and aerospace sectors. The ratings also factor in the company's technically advanced manufacturing facility. The ratings further consider MPL's reputed customer base as well as its demonstrated technological capabilities, which coupled with vast experience of promoters, enhance its competitiveness and act as an entry barrier for new players. The ratings also derive support from the company's healthy financial risk profile, characterised by healthy operating margins, comfortable gearing and healthy debt coverage indicators.

The ratings, however, remain constrained by the company's modest scale of operations, given the niche nature of its business. Also, MPL's working capital intensity stood high owing to high inventory holding and receivable period as most of its clients are public sector undertakings (PSUs). The company is also exposed to foreign currency fluctuations owing to sizeable imports as well as fluctuation in raw material prices, which can exert pressure on the margins. The said risk is mitigated to some extent as the company hedges its exposure through forward contract.

The electronics industry requires constant innovation and adaptation to latest technologies to restrict competition, which could necessitate regular capital investments. MPL has incurred capital expenditure (capex) in FY2023 and plans to incur capex in FY2024. The capex mainly relates to capacity enhancement and technological upgradation, which are requisites in the industry. Therefore, the ability of the company to generate adequate returns from these investments to meet its revenue growth expectations will remain a key factor from the credit perspective.

The Stable outlook on the long-term rating indicates that the company's financial risk profile is expected to remain comfortable, supported by its established position in the PCB manufacturing business and favourable demand outlook from the end-user segments.

Key rating drivers and their description

Credit strengths

Established track record of operations in PCB manufacturing, experienced promoters – MPL started operations in 1982 and has an established record of operations for more than four decades. It supplies high density interconnect (HDI) PCBs that find application in the defence and aerospace segments.

Established customer base – Over the years, MPL has built relationships with reputed players in the aerospace and defence sectors. It consists of many original equipment manufacturers (OEMs) and subcontractors for OEMs (engaged in assembly). The established relationship has aided the company to get repeat orders and supports stability in revenues and earnings.

Large investments in technologies provide competitive advantage, capital-intensive operations act as an entry barrier – The company is focussed on HDI PCB manufacturing for clients in the aerospace, defence and IT sectors. It has a technically advanced manufacturing facility and is capable of manufacturing up to 44 layers. Owing to this, the operations require continuous capital expenditure for the acquisition and upgradation of technology and fixed assets, which acts as an effective entry barrier for new players. Additionally, ICRA notes that the domestic demand growth for PCBs is expected to remain, given the Government's focus on greater indigenisation in the defence segment. Order visibility from the defence segment is expected to remain healthy.

Comfortable financial profile – The financial profile of the company has remained comfortable, characterised by healthy operating margins, comfortable gearing and healthy debt coverage indicators. Over the years, the profit margins for the company have largely stood healthy, primarily aided by the company's target segment with major focus on complex PCBs. The operating margin stood healthy at 26.2% in FY2022. Going forward, the operating profit margin is expected to remain healthy at around 27-29%, given the competitive advantage possessed by the company in terms of technology and complex products, which aid in charging a price premium for its products. The capital structure remained comfortable, as evident from a gearing of 0.4 times as on March 31, 2022. Given the healthy profitability, the coverage indicators have remained strong with TD/OPBDITA and interest coverage of 1.4 times and 12.0 times, respectively in FY2022.

Credit challenges

Modest scale of operations – The company's scale of operations has been modest with an operating income of Rs. 68.8 crore in FY2022. This is largely due to the company's focus on high-margin, low volume orders. Moreover, capacity enhancement, technological upgradation undertaken by the company in FY2023 and healthy demand helped the company register gross sales of Rs.95.0 crore till March 16, 2023 with an outstanding order book position of Rs. 39.5 crore. The company is envisaged to register gross revenues of Rs.100 crore in FY2023, which would be an all-time high.

High working capital intensity of operations – The company's working capital intensity of operations remained high at 53% in FY2022 (against 50% in FY2021) owing to the high inventory and debtor levels. MPL maintains high levels of inventory to fulfil orders, which require a fast turnaround. Additionally, the company imports 60-70% of its requirement and considering the lead time involved in imports of the same, the company procures in bulk. Besides, there has been accumulation of inventory in the last two-three years, led by prevailing container shortages. The receivable days of the company are also elongated, given the delays in recovering dues from PSUs.

Exposure to foreign currency and price risks – The company imports around 60-70% of its raw material requirements, which exposes it to forex risks against small share of exports. However, such risks are mitigated as MPL has forward contract for about 95% of its exposure.

Liquidity position: Adequate

MPL's liquidity position is adequate, supported by increasing cash flows, prudent working capital management and unutilised bank facilities and cash and bank balance of Rs.12.2 crore as on February 28, 2023. The average utilisation of fund-based facility stood low at 28% during the last 12 months ended on February 28, 2023, providing a buffer of Rs. 7.4 crore through unutilised limits as on February 28, 2023. Against this, the annual repayment obligations stand at Rs.10.5 crore in FY2024 and Rs. 11.4 crore in FY2025. The company incurred a capex of Rs. 20.0 crore towards capacity enhancement and technological upgradation, funded through term loan of Rs. 15 crore. For FY2024, capex of another Rs. 20.0 crore has been planned towards technological upgradation. This is proposed to be funded through debt of Rs. 17.0 crore (sanctioned) and the balance through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade MPL's ratings if the company demonstrates a healthy revenue growth and a significant strengthening in its net worth along with an improvement in the liquidity position on a sustained basis.

Negative factors – Pressure on MPL's ratings could arise if there is a significant decline in the operating income and profitability or a higher-than-anticipated debt-funded capital expenditure, weakening the capital structure and debt protection metrics.

Specific credit metrics that might trigger ratings downgrade include a debt service coverage ratio (DSCR) of less than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Micropack Private Limited (MPL), incorporated in 1982, manufactures printed circuit boards (PCBs). The company provides a wide range of multilayer PCBs, heatsink PCBs, flexi-rigid PCBs, HDI PCB among others for both production and quick turnaround proto-type requirements. The company has technically advanced manufacturing facility.

Key financial indicators (Standalone)

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	57.8	68.8
PAT (Rs. crore)	8.9	8.8
OPBDIT/OI (%)	29.5%	26.2%
PAT/OI (%)	15.4%	12.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.6
Total Debt/OPBDIT (times)	0.5	1.4
Interest Coverage (times)	16.7	12.0

Source: Financial statements of MPL and ICRA research; A – Audited and Prov.: Provisional PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2021	Date & Rating in FY2020
					May-03-2023	-	-	-
1	Term Loan	Long-term	15.00	15.00*	[ICRA]BBB+ (Stable)	-	-	-
2	Unallocated	Long-term /Short-term	37.00	-	[ICRA]BBB+ (Stable) /[ICRA]A2	-	-	-

*Sanctioned amount

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term- Term Loan	Simple
Unallocated amount	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Long-term – Term Loan	2023	-	2028	15.00	[ICRA]BBB+(Stable)
NA	Unallocated	-	-	-	37.00	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: MPL

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure-2: List of entities considered for consolidated analysis: Not applicable.

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sakshi Suneja
+91 22 6169 3349
sakshi.suneja@icraindia.com

Taanisha Sharma
+91 22 6169 3379
Taanisha.sharma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches