June 08, 2023

Micro Plastics Private Limited: Long-term rating downgraded to [ICRA]A-; short- term rating reaffirmed at [ICRA]A2+; outlook on long-term rating remains Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	48.00	48.00	Downgraded to [ICRA]A- from [ICRA]A; outlook remains negative
Long-term fund based	100.00	100.00	Downgraded to [ICRA]A- from [ICRA]A; outlook remains negative
Long-term fund based – Sublimit	(15.00)	(15.00)	Downgraded to [ICRA]A- from [ICRA]A; outlook remains negative
Long-term non fund based	15.00	15.00	Downgraded to [ICRA]A- from [ICRA]A; outlook remains negative
Long-term non fund based – Sublimit	(15.00)	(15.00)	Downgraded to [ICRA]A- from [ICRA]A; outlook remains negative
Short-term fund based	30.00	30.00	[ICRA]A2+; reaffirmed
Short-term fund based – Sublimit	(100.00)	(100.00)	[ICRA]A2+; reaffirmed
Short-term non fund based	40.00	40.00	[ICRA]A2+; reaffirmed
Short-term non fund based – Sublimit	(30.00)	(30.00)	[ICRA]A2+; reaffirmed
Long-term/Short-term – Unallocated	2.30	2.30	Downgraded to [ICRA]A- from [ICRA]A; outlook remains negative; [ICRA]A2+ reaffirmed
Total	**235.30**	**235.30**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Micro Plastics Private Limited's (MPPL/the company) and MPlastics Toys and Engineering Private Limited (MTEPL) given that MTEPL is a 100% subsidiary of MPPL and the fact that ICRA expects the operational and financial linkages between MPPL and MTEPL to remain strong.

The downgrade in long-term rating follows MPPL's weaker-than-expected performance in FY2023 and expectation of a subdued performance in FY2024. MPPL's earnings in FY2023 was expected to be supported by improvement in capacity utilisation, cost-optimisation measures undertaken and softening of raw material prices. However, due to moderation in volumes and inability to completely pass on cost inflation, given its limited pricing flexibility, amid demand slowdown and competition, the company reported operating loss of Rs. 13.0 crore in FY2023 (unaudited). The weak accruals resulted in moderation of debt metrics for FY2023. While margins are expected to improve in the next few quarters with cost rationalisation initiatives, enhanced product mix and volume ramp up, they are likely to remain weaker than ICRA's earlier expectation over the next 6-9 months. Further, while debt metrics are expected to improve in FY2024 with better accruals and anticipated equity infusion in H1 FY2024, the extent of strengthening remains to be seen and would remain a monitorable. Significant improvement in MPPL's margins, business cash flows and debt metrics would be imperative going forward.

The ratings remain supported by MPPL's established customer profile comprising global leaders in the toy manufacturing space and its healthy revenue growth prospects. MPPL is one of the largest contract manufacturers and exporters of branded toys and model hobby kits from India. It counts several leading global players in the toy industry as its customers and has had repeat orders/periodic addition from customers over the years. Although the near-term demand outlook remains weak, MPPL's growth prospects over the medium term remain healthy, stemming from overall market growth and China+1 strategy adopted by global toy manufacturers. Moreover, MPPL's enhanced production capabilities and plan to increase penetration in segments other than toys support its growth prospects. MPPL, however, faces relatively high customer concentration risk, with more than 50% of its revenues coming from its top three customers.

Key rating drivers and their description

Credit strengths

Established market presence with customer profile of leading players in the industry – MPPL is one of the largest contract manufacturers and exporters of branded toys and model hobby kits from India. It derives 70-80% of its revenues from the toy segment and counts several leading global players in the toy industry as its customers. The company has had repeat orders and periodic customer additions over the years. Further addition of customers is also expected, with MPPL's recent capacity expansion and as global players diversify their supplier base.

Healthy revenue growth prospects over the medium term – The growth prospects for Indian toy makers are healthy over the medium term, stemming from overall market growth and the China+1 strategy adopted by global toy manufacturers. This is expected to aid MPPL's revenue growth as well in the next 3-5 years, although the near-term demand outlook remains weak. MPPL has expanded its capabilities recently, adding rotor moulding and blow moulding, and these would augur well for the company. The company's plan to increase penetration in segments other than toys is also likely to support revenues over the medium term.

Anticipated equity infusion in H1 FY2024 – The company is anticipating an equity infusion from its private equity investors in H1 FY2024 for funding its operational and financial commitments, given the cash losses in FY2023 (according to unaudited financials) and expected weak accruals in the near term, due to the global slowdown. While this would ease the company's liquidity position, timely materialisation of the same is critical and would remain a monitorable.

Credit challenges

Challenging demand environment in the near term – Globally, toy companies witnessed moderation in sales in FY2023 because of the macro-economic gloom and consequent impact on discretionary spending. This is expected to continue at least until H1 FY2024 and would in turn lead to cascading effect on demand, for players like MPPL. Added to this is competition from Chinese players, resulting in further pressure on revenues and accruals. However, over the medium to long term, the growth prospects for Indian toy makers including MPPL remain healthy stemming from overall market growth and China +1 strategy adopted by global toy manufacturers. The company's plan to increase penetration in segments other than toys is also likely to support revenues over the medium term.

Moderation in debt metrics – MPPL has reported operating losses in FY2023 (according to unaudited financials), impacted by moderation in capacity utilisation and inability to completely pass on cost inflation, given its limited pricing flexibility, amid demand slowdown and competition. This has cascaded into moderation in debt metrics for FY2023. While margins are expected to improve in the next few quarters with cost-optimisation initiatives, enhanced product mix and volume ramp up, the extent of improvement remains to be seen. Further, while debt metrics are expected to improve from FY2023 levels in FY2024 with better accruals and equity infusion, the extent of strengthening remains to be seen.

Revenues exposed to customer concentration risk – MPPL derives more than 50% of its revenues from its top three customers, resulting in significant customer concentration risk. Accordingly, the company's performance is susceptible to loss of customers or their under-performance. Further, MPPL typically witnesses competition from Chinese players, who are significantly larger than the company in scale and its revenues are vulnerable to the low switching costs and ease of availability of alternatives. Its demonstrated ability to add new customers and plan to enhance penetration in end segments other than toys, however, mitigate the risk to an extent.

Liquidity position: Adequate

MPPL's liquidity is adequate, supported by the anticipated equity infusion in H1 FY2024, and undrawn working capital lines of Rs. 90.4 crore as on March 31, 2023. Its working capital utilisation was moderate, at around 50% of the sanctioned limit for the period April 2022 to March 2023. The company had consolidated free cash and bank balances of Rs. 6.6 crore as on March 31, 2023. As against these sources of cash, the company has debt repayment obligations of Rs. 26.0 crore in FY2024 and Rs. 27.5 crore in FY2025 on its sanctioned loans. It also has capex plans of Rs. 30.0 crore in FY2024 and Rs. 40.0 crore in FY2025, part of which is expected to be debt funded from existing undrawn term loans. Further, the presence of private equity investors (Premji Invest Limited and ADV Partners) enhances its financial flexibility.

Rating sensitivities

Positive factors – An upgrade in the ratings is unlikely in the near term, given the moderation in MPPL's performance. Nevertheless, ICRA could revise MPPL's long-term rating outlook to Stable, if there is significant improvement in margins and debt metrics on a sustained basis, while maintaining adequate liquidity position.

Negative factors – Pressure on MPPL's ratings could arise in the absence of adequate equity infusion in H1 FY2024 and material improvement in earnings, leading to weakening of debt coverage metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

MPPL is one of the largest contract manufacturers and exporters of branded toys and model hobby kits from India to markets such as United States of America, Hong Kong and United Kingdom. It derives 70-80% of its revenues from the toy segment and counts several leading global players in the toy industry as its customers.

In addition, the company manufactures plastic injection components, tooling and sub-assemblies for automotive, sport equipment, power tools, appliances, electricals, electronics, telecoms and heavy engineering. The company has various international certifications like Walmart Factory Capability and Capacity Audit (FCCA) and Global Supply Chain Security (GSCS), Facility and Merchant Authorisation (FAMA) certification for Disney and ISO 9001-2008, among others. Apart from the standalone entity, MPPL has recently formed a wholly owned subsidiary, MPlastics Toys and Engineering Private Limited, engaged in the same line of business as the standalone entity, but with enhanced capabilities. ADV Partners (through Pinnacle Ace Investment Holdings Pte Limited) and Premji Invest Limited (through PI Opportunities Fund) hold 63.92% and 30.08% stake respectively in the company at present while the remaining is held by its promoter, Mr. Vijendra Babu.

Key financial indicators

Consolidated	FY2022 (Audited)	FY2023 (Unaudited)
Operating income (Rs. crore)	371.2	379.9
PAT (Rs. crore)	21.7	-60.8
OPBDIT/OI (%)	9.1%	-3.4%
PAT/OI (%)	5.8%	-16.0%
Total outside Liabilities/Tangible net worth (times)	1.9	4.4
Total debt/OPBDIT (times)	3.8	-16.0
Interest coverage (times)	5.0	-0.8

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

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 as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					08-Jun-2023	25-Nov-2022	28-Oct-2022	07-Jan- 2022	-
1	Long-term - Term loans	Long term	48.00	45.51	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	-	-
2	Long-term fund based	Long term	100.00	-	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
3	Long-term fund based – Sublimit	Long term	(15.00)	-	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	-	-
4	Long term non fund based	Long term	15.00	-	[ICRA]A- (Negative)	[ICRA]A (Negative)	-	-	-
5	Long term non fund based – Sublimit	Long term	(15.00)	-	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	-	-
6	Short-term fund based	Short term	30.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
7	Short-term fund based – Sublimit	Short term	(100.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
8	Short term non fund based	Short term	40.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-
9	Short term non fund based – sublimit	Short term	(30.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
10	Long Term/Short Term- Unallocated	Long term/ Short term	2.30	-	[ICRA]A- (Negative)/[ICRA]A2+	[ICRA]A (Negative)/[ICRA]A2+	[ICRA]A (Negative)/[ICRA]A2+	[ICRA]A (Stable)/[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term loans	Simple
Long-term fund based	Simple
Long-term fund based – Sublimit	Simple
Long term non fund based	Very Simple
Long term non fund based – Sublimit	Very Simple
Short-term fund based	Simple
short-term fund based – Sublimit	Simple
short term non fund based	Very Simple
short term non fund based – sublimit	Very Simple
Long Term/Short Term- Unallocated	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2023	8-9%	FY2029	48.00	[ICRA]A- (Negative)
NA	CC	NA	NA	NA	100.00	[ICRA]A- (Negative)
NA	CC-Sublimit of EPC/PCFC	NA	NA	NA	(15.00)	[ICRA]A- (Negative)
NA	Capex LC	NA	NA	NA	15.00	[ICRA]A- (Negative)
NA	Capex LC - Sublimit of term loan	NA	NA	NA	(15.00)	[ICRA]A- (Negative)
NA	EPC/PCFC	NA	NA	NA	30.00	[ICRA]A2+
NA	Post shipment Credit/WCDL – Sublimit off EPC/PCFC	NA	NA	NA	(100.00)	[ICRA]A2+
NA	LC	NA	NA	NA	35.00	[ICRA]A2+
NA	LER	NA	NA	NA	5.00	[ICRA]A2+
NA	LC - Sublimit of EPC/PCFC	NA	NA	NA	(30.00)	[ICRA]A2+
NA	Unallocated	NA	NA	NA	2.30	[ICRA]A-(Negative)/[ICRA]A2+

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
Micro Plastics Private Limited	NA	Full Consolidation
MPlastics Toys And Engineering Private Limited	100.00%	Full Consolidation

Source: Company

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