August 29, 2023

Milacron India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based	15.00	13.00	[ICRA]A+ (Stable); reaffirmed
Short term – Non-fund based	35.00	30.00	[ICRA]A1; reaffirmed
Long term and short term – Unallocated limits	29.00	36.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Total	**79.00**	**79.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in Milacron India Private Limited's (MIPL) strong market position in the injection moulding machine segment and hot-runners system, complemented by its healthy brand recognition. The ratings continue to factor in MIPL's healthy financial risk profile, marked by a strong capital structure and robust debt protection metrics, resulting from healthy profit margins and low dependence on external borrowings. While its presence in the export markets provides geographical diversification of revenues and allows better utilisation of manufacturing facilities, it also exposes the company's profitability to foreign currency movements owing to the long production cycle. The risk is partly mitigated by the natural hedge offered by imports and the use of forward contracts. Further, the technology support from the ultimate parent company, Milacron (taken over by Hillenbrand Inc. in November 2019), results in periodic upgradation of machines and supports MIPL to maintain its leading position in the industry. The ratings also draw strength from MIPL's strong liquidity position.

The ratings are, however, constrained by intense competition in the domestic plastic processing machinery industry and competition from cheap imports, mainly from China. The ratings are further constrained by the cyclicality in the end-user industries and the vulnerability of margins to sharp fluctuations in input prices.

ICRA also notes the significant upstreaming of cash flows to its parent company (ultimate parent - Hillenbrand Inc., rated Moody's Ba1) through dividend payouts. MIPL's dividend payout is ~Rs. 250.00 crore (including taxes) in the current fiscal - it was ~Rs. 166.0 crore in FY2022 and ~Rs. 200.0 crore in FY2020. Going forward, any substantial dividend distribution, which adversely impacts the credit profile and liquidity, will be a key rating sensitivity.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation of MIPL's credit risk profile being supported by its established position in the injection moulding machinery segment and its healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established position in injection moulding machine industry with growth in machine sales - The company has steadily increased its sales of machines from below 100 in the early 2000s to 450-500 machines per annum during 2007-2009 and to over 2,000 in FY2023. Further, the company's pending order book position as of June 2023 remained decent at around Rs. 375.0 crore. These orders are expected to be executed over the next four months. The company has demonstrated the superior quality of its machines with respect to high productivity (faster cycle time), high precision (product quality and dimensions) and energy efficiency (lower power cost, which typically accounts for 20% of the production cost). These factors have helped MIPL establish a strong brand in the domestic market.

MIPL's growth has been supported by technology transfer from its parent Milacron, which has manufacturing operations in North America and Asia. Milacron provides technology and procurement support (international suppliers), as required by MIPL, in addition to its own in-house technology improvements.

Presence across wide end-user segments and tonnage capacity requirements; diversified customer base - The rigid/semirigid plastics produced through the injection/blow moulding process find application in most industries, such as packaging, construction, consumer durables, automotive, medical equipment, electrical house ware and other industrial applications. The company supplies moulding machines to dedicated original equipment manufacturers (OEMs) and other players, which supply the product components and parts to these industries to manufacture the final product. Further, it has the ability to manufacture moulding machines of a wide range of clamping pressure capacities from 30 MT to 3,200 MT. The company's sales are well diversified with the top ten customers accounting for less than 16% of the total revenues and no single customer constituting over 4% of its total revenue in FY2023. The average number of machines sold per customer is also usually low – in the range of two to three machines per customer, which reduces customer and debtor concentration risks.

Healthy financial risk profile - The company's revenue grew at a steady rate of ~6% to Rs. 1,617.1 crore in FY2023 from Rs. 1,520.5 crore in FY2022. The return indicators continued to be healthy with an operating profit margin of 16.7% and RoCE of 37.1% in FY2023. The overall financial risk profile remains healthy, evident from a strong net worth base of Rs. 574.8 crore and a comfortable capital structure with a gearing of 0.4 times as on March 31, 2023 (provisional financials). Further, the debt-coverage indicators remain strong, indicated by a TD/OPBDITA of 0.8 times and an interest coverage of 11.3 times in FY2023. Going forward, the company's financial risk profile is expected to remain comfortable over the medium term.

Credit challenges

Intense competition from established domestic players and imports - MIPL faces competition from cheaper Chinese imports and other large organised moulding machine manufacturers, such as Toshiba Machine Pvt. Ltd. (now Shibaura Machine India Pvt. Ltd.) and Windsor Machines Ltd., as well as several smaller players. The validity of the anti-dumping duty on Chinese imports, which was 29-30% on the CIF value of moulding machinery in the range of 40-1,000 MT clamping force, expired in December 2020. Notwithstanding this, the company has demonstrated its ability to compete, based on the strength of its technology and cost-competitive products. Hence, despite the withdrawal of import duty, the company reported a healthy growth in domestic sales in FY2022 and FY2023, while largely maintaining its profitability.

Margins vulnerable to fluctuation in input prices and forex rates - The company's profitability remains susceptible to the fluctuation in raw material prices as they form a major portion (~70%) of the total cost. The foreign exchange risk on imports (~39% of total purchases in FY2023) is mitigated through a hedging policy, though the company keeps its position open to some extent, backed by external and internal market research opinion. A large part of the forex risk is naturally hedged through its export realisations in foreign currencies. However, the long production cycle can result in currency exposure, if kept unhedged.

Demand dependent on capex cycles of end-user industries - While MIPL has a diversified end-user industry base, its sales are exposed to the cyclicality in the capex cycles of these industries. From time to time, demand from some key user industries slows down. Notwithstanding this, the company's presence across diverse end-user segments mitigates this risk to a large extent.

Liquidity position: Strong

MIPL's liquidity profile remains strong, aided by healthy cash flow generation and availability of free cash and bank balance of around Rs. 390.00 crore as on March 31, 2023. The liquidity is further aided by MIPL's debt-free status (no external debt) and moderate capex plans, going forward.

Rating sensitivities

Positive factors - MIPL's ratings may be upgraded if the credit profile of the parent, i.e., Hillenbrand, improves, while MIPL maintains its strong liquidity and debt protection metrics.

Negative factors - Deterioration in the credit profile of the parent, i.e., Hillenbrand, could lead to a downgrade. Significant financial support to parent company through dividend distributions or any other mode that impacts the liquidity position may also exert pressure on the ratings. Further, the ratings could be downgraded if there is a sustained decline in revenue or profit margins, thereby weakening the debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Milacron India Private Limited {MIPL, erstwhile Ferromatik Milacron India Private Limited (FMIPL)}, founded in 1995, was set up as a joint venture between Milacron LLC, USA (erstwhile Milacron Inc., USA) and Mr. Mahendra Patel for manufacturing moulding machines, as an import-substitute product. Starting with a 51% stake, Milacron LLC increased its holding in the company over the years. In FY2011, MIPL became a 100% subsidiary of the company in India. In FY2017, it was amalgamated with another subsidiary company of Milacron LLC, USA in India – Mold Master Technologies Pvt Ltd (MMTPL). MMTPL has a plant near Coimbatore, Tamil Nadu, which manufactures hot runner products, including hot runner systems, temperature controllers, hot halves and gating technologies.

MIPL has an installed capacity of producing around 3,000 moulding machines per annum and the manufacturing facilities are located at GIDC, Vatva, Ahmedabad.

In November 2019, Hillenbrand Inc. acquired Milacron Holdings Corp., the ultimate holding company of MIPL, and the promoter of MIPL changed to Hillenbrand, rated Moody's Ba1 (Stable).

Hillenbrand Inc. is a diversified industrial company consisting of three segments: Advanced Process Solutions (APS - previously the Process Equipment Group), Molding Technology Solutions (MTS- previously Milacron) and Batesville.

- APS manufactures process and material handling equipment and systems used in a wide range of industries
- MTS manufactures and customises equipment and supplies used in plastic technology and processing
- Batesville is a market leader in the North American death care industry

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	1,520.5	1,617.1
PAT	140.2	162.8
OPBDIT/OI	17.8%	16.7%
PAT/OI	9.2%	10.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.0
Total debt/OPBDIT (times)	0.8	0.8
Interest coverage (times)	11.4	11.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * provisional financials*

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 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 29 ,2023	July 07, 2022	May 07, 2021	-
1	Fund based -Cash credit	Long-term	13.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Non-fund based -Letter of credit/Bank guarantee	Short-term	30.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
3	Unallocated limits	Long-term/ Short-term	36.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based	Simple
Short term – non-fund based	Very simple
Long term and short term – Unallocated limits	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	Cash credit	NA	NA	NA	13.00	[ICRA]A+ (Stable)
NA	Letter of credit/ Bank guarantee	NA	NA	NA	30.00	[ICRA]A1
NA	Unallocated limits	NA	NA	NA	36.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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