

October 16, 2023

Machino Polymers Limited: Ratings downgraded to [ICRA]BBB+ (Stable)/[ICRA]A2; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Cash Credit	50.50	80.50	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable); assigned for enhanced amount
Short-term – Non-fund Based Limits – Letter of Credit	22.50	9.50	[ICRA]A2; downgraded from [ICRA]A2+
Long-term/ Short-term – Fund-based/ Non-fund Based Limits	85.00	110.00	[ICRA]BBB+ (Stable)/[ICRA]A2; downgraded from [ICRA]A- (Stable)/[ICRA]A2+; assigned for enhanced amount
Total	158.00	200.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action for Machino Polymers Limited (MPL) factors in ICRA's expectation that MPL's credit metrics are likely to remain moderated over the near term as compared to earlier expectations of steady strengthening on the back of good financial performance. MPL reported weaker than expected performance in FY2023, marked by operating and net losses on account of considerable volatility in raw material prices and foreign exchange (forex) rates during the fiscal, which the company wasn't able to completely pass on to its customers. This further translated into higher reliance on external debt and pressure on coverage metrics of the company. While profitability has recovered in H1 FY2024 on the back of stability in raw material prices, prudent forex risk management and escalation claims received for the previous year, overall accrual generation for the entire fiscal is expected to be lower than ICRA's earlier expectations. Nevertheless, MPL's credit profile is supported by its adequate liquidity position, comfortable capital structure and expected improvement in debt protection metrics over the near to medium term.

Additionally, the ratings remain constrained by MPL's exposure to the high working capital intensity of the business and its high competitive intensity with several domestic and international players in the field, which limits its pricing flexibility. Further, the company is also exposed to high customer concentration risk as its top customer, Maruti Suzuki India Limited (MSIL) drives ~65% of its revenue (routed through tier-1 suppliers) restraining the ratings. However, its high share of business and strong relationship with its customer mitigates the same to a large extent.

Moreover, the ratings derive comfort from MPL's established operational track record as a leading supplier of polypropylene (PP) compounds to original equipment manufacturers (OEMs) in the automotive industry and extensive experience of promoters in the PP compounds business for the domestic automotive market. Further, its wide customer base of reputed tier-1 auto ancillaries who service leading automotive OEMs of the domestic market strengthens the business profile.

The Stable outlook on the rating reflects ICRA's opinion that MPL will continue to benefit from its established business position, established relationships with its key customers and steady demand from key end-user industries.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and MPL's established market position as a leading domestic supplier of PP compounds to tier-1 auto component manufacturers – Incorporated in 1996, MPL is a leading manufacturer of PP compounds to the automotive industry. The company has been promoted by the Jindal family, who have an extensive experience of more than three decades in the business. MPL maintains its market position through its plants at Gurgaon (Haryana), Ahmedabad (Gujarat) and Chennai (Tamil Nadu) across North, West and South India, respectively, with a total installed annual manufacturing capacity of ~86,000 MT.

Customer base includes reputed tier-1 suppliers – Over the years, the company has developed a wide customer base of reputed tier-1 auto ancillaries such as Motherson Sumi Systems Limited, Krishna Maruti Group, Supreme Industries Limited and Bharat Seats Limited. These tier-1 players ultimately service leading automotive OEMs of the industry, such as MSIL, Hyundai Motor India Limited (HMIL), Honda Motorcycle and Scooter India Private Limited (HMSI), Tata Motors Limited (TML) among others. MPL is also a leading supplier of PP compounds to MSIL, routed through the latter's tier-1 auto ancillaries.

Adequate financial risk profile – The company's financial risk profile remains adequate marked by steady revenue growth in past two fiscals as reflected by YoY growth of 51% and 42% in FY2022 and FY2023, respectively. In H1 FY2024, MPL has achieved a revenue of Rs. 462.7 crore, supported by steady offtake from key customers. After having reported losses in FY2023, profitability has recovered in H1 FY2024; although accrual generation for the entire fiscal is expected to be lower than ICRA's earlier expectations. Nevertheless, MPL's credit profile will be supported by its adequate liquidity position, comfortable capital structure and improvement in debt protection metrics in the near term.

Credit challenges

Vulnerability of profitability to fluctuations in raw material prices and forex rates, as also demonstrated by losses in FY2023 – MPL's operating margins are susceptible to fluctuations in the prices of key raw materials—PP and elastomers, however, there exists a pass-through mechanism of the same with customers, which comes with a lag of a quarter. Moreover, the profitability is also exposed to foreign currency fluctuation risk as a sizeable (40-50%) part of the raw material requirement is met through imports, which further leads to volatility in its profit margins. This was demonstrated by the operating and net losses reported by the company in FY2023, on account of considerable volatility in raw material prices and forex rates during the fiscal. While there were delays in claiming pass-through of raw material price escalations in FY2023, part of the same have been received in the current fiscal. This coupled with some stability in raw material prices and more prudent forex risk management has led to recovery in profit margins in H1 FY2024. Going forward, the company's ability to claim raw material escalations on a timely basis, while managing forex risk effectively will be key for sustaining its operating margins.

High competitive intensity of the industry limits pricing flexibility – MPL's nature of operations are exposed to high competitive intensity, facing pressures from several global and domestic suppliers of PP, limiting its pricing flexibility and entailing relatively lower value addition. However, it benefits to an extent from its extensive operational track record and established relationships with its key customers, with whom it enjoys a sizeable share of business.

High customer concentration risk – The company's revenues are exposed to high customer concentration risk as its top 10 customers remains high at ~60% and MSIL indirectly accounts for ~65% of its business. However, the same has declined to some extent in recent years and is expected to decline further over the medium term, with the addition of new customers (OEMs being serviced indirectly through tier-1 ancillaries) and increased revenue contribution from non-auto segments. As of FY2023, passenger vehicles account for ~80% of the sales, followed by 2-wheelers (16%) and white goods (5%). However, the contribution from 2-wheelers and white goods is likely to pick up gradually over the medium term.

Working capital intensive nature of operations – Given the wide variety of compounds manufactured, its multiple manufacturing facilities and dependence on imports, the company’s working capital intensity is high, with an NWC/OI¹ of ~25-30% in the past. This is due to a maintenance of inventory of 60-90 days for its customer requirements, and a receivable cycle of 80-100 days with customers. Moreover, the funding requirements are met through credit of up to 60-80 days from its vendors, along with buyers’ credit and other working capital lines from the bank. Going forward, any funding requirements of the business emanating from anticipated growth are expected to be funded through internal accruals and sanctioned working capital lines.

Liquidity position: Adequate

MPL’s liquidity is adequate, supported by free cash and bank balances/liquid investments of ~Rs. 8.3 crore as of August 31, 2023, and average unutilised limits of ~Rs. 20 crore against drawing power as of August 2023. Moreover, accrual generation, available cash balances coupled with no major debt repayment liability or any significant debt-funded capex plans in the near to medium term, are likely to support MPL’s liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade MPL’s ratings if there is substantial growth in revenues and improvement in operating margins, resulting in strengthening of debt protection metrics and liquidity profile. Specific credit metrics that could lead to an upgrade of MPL’s ratings include Total Outside Liabilities/ Total Net-worth (TOL/TNW) of less than 1.5 times on a sustained basis.

Negative factors – Negative pressure on MPL’s ratings could arise if there is decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Significant debt-funded capex or deterioration in working capital cycle, impacting the company’s credit metrics and liquidity position could also be a trigger for a rating downgrade. Specific credit metrics that could lead to a downgrade of MPL’s ratings include interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of MPL for arriving at the ratings. As on March 31, 2023, the company had two subsidiaries, which are enlisted in Annexure-II.

About the company

MPL is engaged in the manufacturing of polypropylene (PP) composite materials and alloys for various automotive OEMs and tier-I auto component manufacturers of bumpers, instrument panels and trims, etc. The company’s manufacturing facilities are located at Gurgaon, Ahmedabad, Chennai, and the UAE with a total installed production capacity of ~86,000 MT per annum. MPL is entirely held by the promoters (Jindal family) and promoter group companies (Machino Group). The PP compounds supplied by the company to tier-I suppliers find application in bumpers, instrument panels (IP), and trims of automobiles. The main OEMs who use MPL’s compounds are MSIL, HMIL, TML, Honda Motors Limited (Honda), Mahindra & Mahindra Limited (M&M), etc.

¹ Net working capital/ Operating income

Key financial indicators (audited)

MPL – Consolidated	FY2021	FY2022	FY2023*
Operating income	399.4	604.8	858.7
PAT	7.0	18.1	-18.3
OPBDIT/OI	4.1%	5.3%	-0.6%
PAT/OI	1.7%	3.0%	-2.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.5	2.3
Total debt/OPBDIT (times)	4.3	3.0	-28.6
Interest coverage (times)	4.0	4.9	-0.5

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

Status of non-cooperation with previous CRA:

CRA	Rating action	PR date
CRISIL	CRISIL BB+/Stable/ CRISIL A4+/ ISSUER NOT COOPERATING	March 31, 2023

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of August 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Oct 16, 2023	Nov 22, 2022	Sept 08, 2022		
1 Fund-based Limits – Cash Credit	Long-term	80.50	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-	-	-	-
2 Non-fund Based Limits – Letter of Credit	Short-term	9.50	-	[ICRA]A2	[ICRA]A2+	-	-	-	-
3 Fund-based/ Non-fund Based Limits	Long term/ Short-term	110.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-
4 Unallocated Limits	Long term/ Short-term	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Limits	Simple
Short-term Non-fund Based Limits	Very Simple
Long-term/ Short-term Fund-based/ Non-fund Based Limits	Simple

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	Fund-based Limits	NA	NA	NA	80.50	[ICRA]BBB+ (Stable)
NA	Non-fund Based Limits	NA	NA	NA	9.50	[ICRA]A2
NA	Fund-based/ Non-fund Based Limits	NA	NA	NA	110.00	[ICRA]BBB+ (Stable)/ [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	MPL's ownership	Consolidation Approach
Artemis FZ LLC	100.00%	Full Consolidation
Comp Tech FZ LLC	100.00%	Full Consolidation

Source: Company

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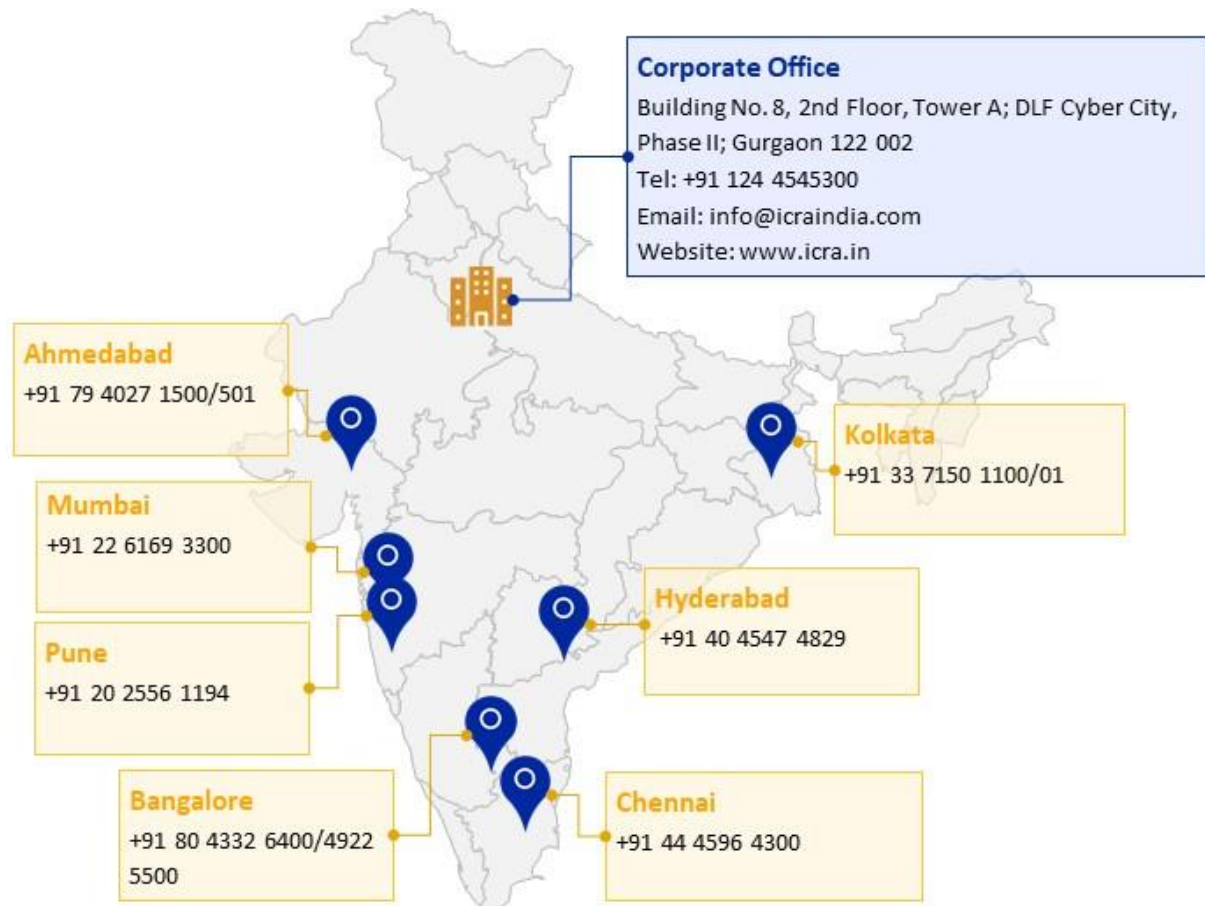
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