October 29, 2024

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	13.00	13.00	[ICRA]A+ (Stable); reaffirmed
Short term – Non-fund based	30.00	30.00	[ICRA]A1; reaffirmed
Long term and short term – Unallocated limits	36.00	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 strong financial risk profile, marked by a strong capital structure and robust debt protection metrics, resulting from the 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. The risk is partly mitigated by the natural hedge offered by imports and the use of forward contracts for hedging the currency exposure. 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 the 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 (Negative)} through dividend payouts. MIPL's dividend payout was ~Rs. 246.12 crore in FY2024 and ~Rs. 286.62 crore (gross amount subject to deduction of TDS) in September 2024. The company is also required to pay royalty to the promoter entities, the quantum of which has increased from the current fiscal to around 9.5% of the total revenues, which is likely to moderate the operating margins, going forward. Further, any substantial dividend distribution, which adversely impacts the credit profile and liquidity position of MIPL, will be a key rating sensitivity.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation of MIPL's established position in the injection moulding machinery segment, which is likely to generate comfortable cash flows.

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 2,100 in FY2024. Further, the company's pending order book position as of September 2024 remained comfortable at around Rs. 322.0 crore. These orders are expected to be executed over the next three to 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 10 customers accounting for less than 12% of the total revenues and no single customer constituting over 3% of its total revenue in FY2024. The average number of machines sold per customer is also usually low – in the range of two to three machines per customer, which reduces the customer and debtor concentration risks.

Healthy financial risk profile – The company's revenue remained largely steady at Rs. 1,590.52 crore in FY2024 vis-à-vis Rs. 1,613.33 crore in FY2023. The return indicators continued to be healthy with an operating profit margin of 13.62% and RoCE of 27.30% in FY2024. Going forward, the margins are expected to reduce with the increase in royalty payment to its parent companies. However, the overall financial risk profile remains healthy, evident from a strong net worth base of Rs. 469.40 crore and a comfortable capital structure with a gearing of 0.47 times as on March 31, 2024. Further, the debt-coverage indicators remain strong, indicated by a TD/OPBDITA of 1.03 times and an interest coverage of 8.85 times in FY2024. 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 has largely maintained 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 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 of 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. 288.80 crore as on March 31, 2024. The liquidity is further aided by MIPL's debt-free status and limited capex plans, going forward. However, the company's cash flow position might be impacted negatively in case of high dividend payments to its parent, going forward. Even as the company upstreams a sizeable amount to the promoter companies, the liquidity remains strong marked by healthy cash balances.

Rating sensitivities

Positive factors – MIPL's ratings may be upgraded if it demonstrates a healthy growth in turnover while maintaining strong liquidity and debt protection metrics.

Negative factors – Significant financial support to the parent company through dividend distribution or any other mode that impacts the liquidity position may 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. Moreover, a deterioration in the credit profile of the parent, i.e., Hillenbrand, could result in a downgrade.

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 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 has 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., then 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 two segments: Advanced Process Solutions (APS - previously the Process Equipment Group) and Molding Technology Solutions (MTS- previously Milacron).

- 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

Key financial indicators (audited)

	FY2023	FY2024
Operating income	1,613.3	1,590.5
PAT	176.1	130.3
OPBDIT/OI	17.0%	13.6%
PAT/OI	10.9%	8.2%
Total outside liabilities/Tangible net worth (times)	1.0	1.3
Total debt/OPBDIT (times)	0.8	1.0
Interest coverage (times)	11.4	8.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct 29, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based - Cash credit	Long term	13.00	[ICRA]A+ (Stable)	29-Aug-23	[ICRA]A+ (Stable)	07-Jul-22	[ICRA]A+ (Stable)	07-May-21	[ICRA]A+ (Stable)
Non-fund based - Letter of credit/Bank guarantee	Short term	30.00	[ICRA]A1	29-Aug-23	[ICRA]A1	07-Jul-22	[ICRA]A1	07-May-21	[ICRA]A1
Unallocated limits	Long term/Short term	36.00	[ICRA]A+ (Stable)/ [ICRA]A1	29-Aug-23	[ICRA]A+ (Stable)/ [ICRA]A1	07-Jul-22	[ICRA]A+ (Stable)/ [ICRA]A1	07-May-21	[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:

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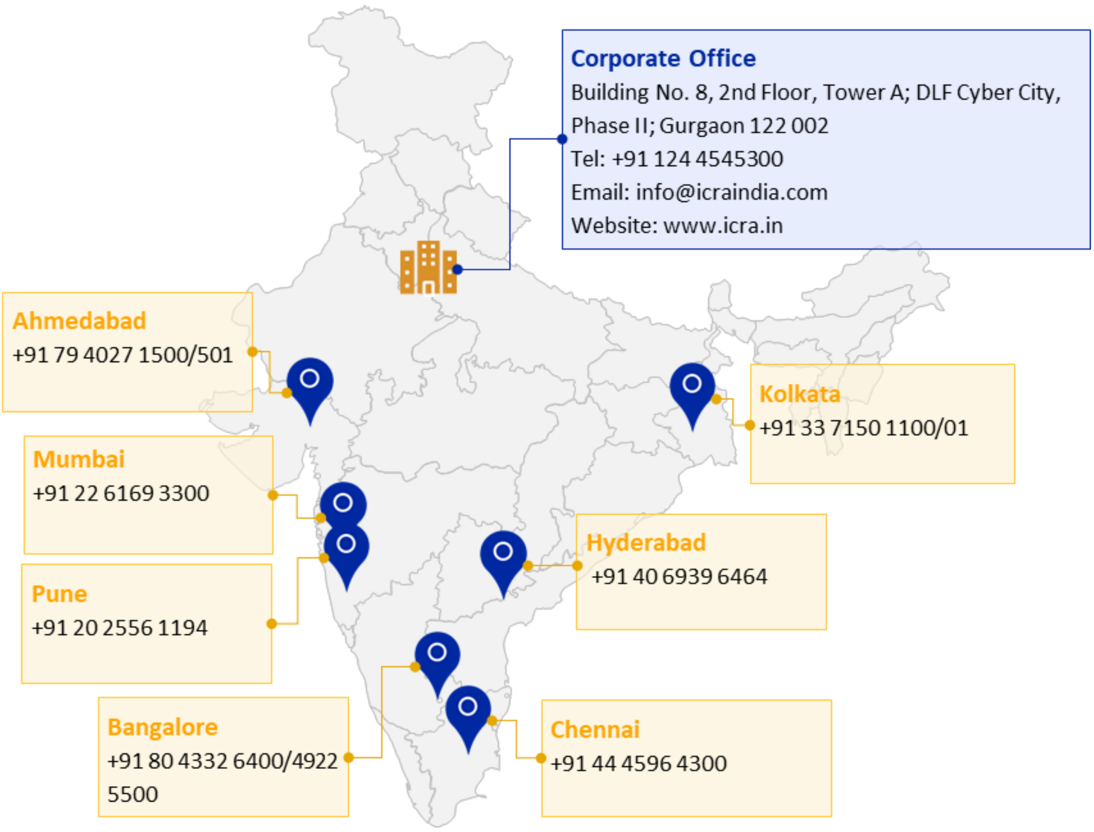

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