

July 03, 2020

Indo-MIM Private Limited: Rating reaffirmed; withdrawn for proposed NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	469.18	371.33	[ICRA]AA(Stable); Reaffirmed
Cash Credit	117.95	172.95	[ICRA]AA(Stable); Reaffirmed
Proposed Term Loans	53.00	95.85	[ICRA]AA(Stable); Reaffirmed
Proposed Non-Convertible Debenture Programme**	60.00	-	[ICRA]AA(Stable); Reaffirmed and Withdrawn
Total	700.13	640.13	

*Instrument details are provided in Annexure-1,**has not been placed by the company

Rationale

The rating reaffirmation continues to reflect the dominant market position of Indo-MIM Private Limited (IMPL/ the company) in the global metal injection moulding (MIM) industry, given its relatively large-scale operations and strong technical competencies to cater to requirements of diverse client segments. The revenue of IMPL has improved significantly, at a CAGR of 15% over the last five-year period, owing to healthy demand growth from various client segments such as automotive, defence, medical and consumer goods and aerospace segments. The company has been able to forge strong client relationship across various geographies such as USA and European nations, corroborated by the repeat orders received from these clients. IMPL's financial profile continues to be robust, characterised by healthy debt protection metrics and superior return indicators, supported by its strong operational performance and limited exposure to raw material fluctuation risks. In addition, the company's USA operations (under subsidiary) have also witnessed an improvement in the last one-year period and have catered to high-margin yielding segments. Furthermore, the rating continues to positively factor in the healthy demand prospects for IMPL's products, as MIM technology offers higher precision and better cost advantages in comparison to alternate technologies. ICRA further continues to take note of the competent management team, comprising of technocrats with over two decades of industry experience.

The rating, however, remains constrained by the company's relatively capital-intensive nature of operations, which requires continuous part-debt funded capacity expansions, which, in turn, are likely to keep the debt levels moderately elevated. ICRA, however, notes that the company has limited capex plans in FY2021 because of the Covid-19 pandemic. Furthermore, the company's revenue growth is also likely to be impacted by the slowdown in the automotive sector, which contributes to around 30% of the company's revenues, because of the pandemic. Nonetheless, the demand from other segments such as medical and defence is expected to remain strong and drive the revenue growth and profitability. Also, despite the dividend policy adopted by the company, its liquidity position remains strong to cover debt repayment obligations in the near term in case of any exigency. In addition, given that the company is largely export oriented, its profitability remains exposed to volatility foreign exchange prices, mitigated to some extent by the natural hedge provided by raw material imports as well as the hedging policy adopted by the company. While the company faces competition from certain domestic and other Asian countries, advantages of economies of scale as well as cost with respect to manpower are expected to shield the company from imminent pricing pressures.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that IMPL will continue to benefit from its established position as a supplier of MIM products in the export markets. However, the impact of the Covid-19 pandemic on the company's overall revenue growth as well as the receivable position both in India as well as the USA, and the funding requirements at the subsidiary level, which would entail debt in-flow, will remain key rating monitorables. In addition,

ICRA will continue to closely monitor the updates pertaining to the legal matter, involving the company's director Mr. Krishna Chivukula, and its impact on the overall performance of the company.

ICRA has withdrawn the [ICRA]AA(Stable) rating assigned to the proposed Rs. 60 crore non-convertible debenture programme of the company on receipt of request from IMPL as the same has not been placed by the company.

Key rating drivers and their description

Credit strengths

Established and dominant presence in metal injection moulding (MIM) industry – IMPL has emerged as one of the largest players in the metal injection moulding industry over the years. The inherent advantages possessed by the company owing to strong technical competencies and scale are expected to sustain over the medium term.

Strong revenue growth backed by healthy demand for MIM products in diversified client segments – The revenue of IMPL has improved significantly over the last five-year period owing to healthy demand growth from various client segments such as automotive, defence, medical and consumer goods and aerospace.

Strong financial risk profile characterised by low gearing, strong debt coverage and comfortable liquidity – Despite the regular capacity expansion plans undertaken in both domestic and USA-subsiary level, the financial profile of IMPL remains relatively strong, as reflected by Total Debt/Net Worth of 0.7 times, Total Debt/OPBDIT of 1.2 times and interest coverage of 11.2 times in FY2019. Return on capital employed also continues to be robust for the company.

Credit challenges

Exposure to foreign exchange fluctuations– Given that exports contribute to over 90% of IMPL's revenues, the company remains exposed to forex fluctuations. However, while import of key raw materials provides a natural hedge to a certain extent, the company has also historically adopted a policy of hedging its net exposure.

Capital intensive operations –The company undertakes regular capacity expansion in order to have spare capacity to cater to customers' needs in a timely manner. While this would keep the debt level moderately elevated, ICRA expects the company's capitalisation and debt coverage metrics to remain healthy, supported by a steady operating performance.

Funding requirements at subsidiary level – The company's USA subsidiary Indo-MIM Inc, the USA, commenced trial operations in October 2017 and was established to focus on high-margin yielding segments in the USA market. The investments in subsidiary have been funded via a combination of debt and internal accruals. Furthermore, IMPL also offers sales commission to Indo-MIM Inc and thus, the two entities have strong operational and financial linkages.

Liquidity position: Strong

IMPL's liquidity position remains strong; the company had cash and bank balances to the tune of Rs. 201.1 crore as of March 2020 end (at a standalone level) along with considerable cushion in unutilised working capital facilities. Furthermore, the overall cashflows continue to be robust, given the strong operational performance of the company. The company does not have any debt at its USA subsidiary level.

Rating sensitivities

Positive triggers – The rating could witness an upward revision in case of sustained improvement in the performance of the company driven by healthy revenue growth and profitability levels with Total Debt/OPBDITA improving to less than 0.75 times at a consolidated level.

Negative triggers – The rating could witness a downward revision in case any adverse impact on the revenue/profitability of the company leading to significant deterioration in debt protection metrics. Also, trend in receivable position will also remain a monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Rating is based on the consolidated financial statements of the company

About the company

Incorporated in 1996, Indo MIM Private Limited (IMPL) is one of the world's largest metal injection moulding (MIM) part manufacturers in terms of installed capacity base (close to 25 crore parts per year), with facilities spread over 25000 square metre area in Bangalore. It caters to a variety of segments including automobile, consumer products, industrial products and medical products and has a tool inventory of over 3000 tools. The company is also vertically integrated with plating, heat treatment, grinding, industrial casting and machining capabilities.

In FY2019, at a consolidated level, the company reported a net profit of Rs. 213.8 crore on an operating income (OI) of Rs. 1400.2 crore compared with a net profit of Rs. 154.2 crore on an OI of Rs. 1152.4 crore in the previous year.

Key financial indicators

	FY2018	FY2019	FY2020 (provisional)
Operating Income (Rs. crore)	1,152.4	1,400.2	1,546.1**
PAT (Rs. crore)	154.2	213.8	390.4^
OPBDIT/OI (%)	30.7%	31.6%	
PAT/OI (%)	15.3%	15.3%	
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	
Total Debt/OPBDIT (times)	1.5	1.2	
Interest Coverage (times)	7.1	11.2	

**Provisional financials; ** FY2020 operating income includes other income; ^depicts profit before tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2018	FY2017
					03-Jul-2020	18-Sep-2019	8-Apr-2019	5-Mar-2018	19-Dec-2016
1	Term Loans	Long Term	371.33	371.33*	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
2	Cash Credit	Long Term	172.95		[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
3	Proposed Term Loans	Long Term	95.85		[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
4	Proposed Non-convertible debenture programme	Long Term	60.00		[ICRA]AA(Stable) reaffirmed and withdrawn	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)

Amount in Rs. crore ; * As on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Sep-2014 – Feb- 2020	NA	March 2021- March 2026	371.33	[ICRA]AA(Stable)
NA	Cash Credit	NA	NA	NA	172.95	[ICRA]AA(Stable)
NA	Proposed Term Loans	NA	NA	NA	95.85	[ICRA]AA(Stable)

Source: Indo-MIM Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indo-MIM Inc, USA	100.00%	Full Consolidation
Indo-MIM Mexico*	49.00%	Proportionate Consolidation

*Non-operational

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