August 03, 2021

MPP Technologies 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 Limit	44.00	44.00	[ICRA]BBB (Stable); Reaffirmed
Short-term Non-fund Based Limit	17.57	17.57	[ICRA]A2; Reaffirmed
Total	**61.57**	**61.57**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings considers MPP Technologies Private Limited's (MTPL's/ the company's) established presence in the steel fabrication segment, its reputed client base, and the synergic benefits from the presence of TTP Technologies Private Limited ((TTPL), a Group company) in a related business stream. TTPL has extended funding support to MTPL, enabling the latter to reduce dependence on high-cost external debt funding. The ratings also take in to account the above average financial profile, marked by comfortable capital structure and debt protection metrics along with adequate liquidity position.

The ratings, however, continue to be constrained by the exposure of MTPL's profitability to fluctuations in key raw material prices and the relatively low value-addition of the steel fabrication industry, which in turn is characterised by intense competition. Nonetheless, the profit margin improved in FY2021, after deteriorating continuously for the past three years, as a result of the increase in export sales, which is characterised by higher margins compared to domestic sales. MTPL's ability to timely pass on any further variation in the raw material prices to customers remains crucial. The ratings are also constrained by the relatively high working capital intensity of the company's operations. Further, the ratings consider the company's vulnerability to foreign exchange risk, partially mitigated by the opportunistic hedging policy adopted. Also, the client concentration risk—the top-five clients contributed ~52% to the company's revenue in FY2021—constrains the ratings.

The stable outlook assigned to the company reflects ICRA's expectation that MTPL would continue to maintain the credit profile aided by steady revenue growth, improvement in profitability and comfortable capital structure.

Key rating drivers and their description

Credit strengths

Established track record in steel fabrication industry – MTPL promoters have four decades of experience in the steel fabrication industry and benefits from the extensive relationships with customers, as demonstrated by the repeat orders from the customers.

Reputed client base - The company's clientele constitutes reputed companies, such as ABB Limited, Crompton Greaves, and Siemens AG, which are key players in the capital goods segment across the world.

Synergic benefits from presence of TTPL in similar business stream - TTPL's presence in a related business stream (namely manufacturing of transformer radiators) provides the company with synergic benefits in terms of raw material procurement at economical prices and opportunities for product cross-selling. Moreover, TTPL has extended low cost funding support (Rs. 22.45 crore outstanding as on March 31, 2021) to MTPL, enabling the latter to reduce dependence on high-cost external debt. The demonstrated track record of funding support from the group entity enhances the overall financial flexibility of the company.

Improvement in profitability and capital structure - MTPL's profit margin improved in FY2021, after deteriorating continuously for the past three years, as a result of an increase in export sales, which is characterised by higher margins compared to domestic sales. However, MTPL's ability to improve its realisations and consequently increase its profit margin remains a key monitorable. The capital structure improved further in FY2021 as the company repaid Rs. 8.9 crore of loan it has availed from the group company, with improvement in the overall cash flows. In FY2020, the company used the preferential share capital infused by TTPL to prepay the long-term debt that was availed for funding the capex programme. The gearing ratio of MTPL stood comfortable at 1.2 times as of March 2021 as against 1.3 times as of March 2020. Better profitability and reduction in debt levels improved the debt protection metrics in FY2021 – with interest coverage of 2.4 times and TD/OPBDITA of 4.1 times.

Credit challenges

Exposure to volatility in raw material prices - MTPL's profitability is exposed to movement in the price of its key raw material, steel, as raw material costs generally account for ~40-45% of the company's operating income (OI). Further, MTPL's ability to timely pass on any variation in the raw material prices to customers remains crucial.

Vulnerability to forex rate fluctuations - MTPL remains vulnerable to forex rate fluctuations, given that the net exposure/OI stood at ~41% in FY2019. Although the company adopts a hedging policy for 50% of its exposure, safeguarding revenues from the impact of currency rate fluctuations will remain critical for the overall performance.

Relatively low value-adding operations and intense competition – MTPL's operations are not very technologically intensive and primarily involve fabrication, welding and painting activities. Further, the industry is highly fragmented and intensely competitive.

Relatively high working capital intensity - The rising inventory requirements over the past three years have led to higher working capital intensity, compelling the company to increase its dependence on short-term debt.

Liquidity position: Adequate

The company's liquidity position remains adequate, marked by the absence of external long-term debt and positive cash flows from operations. Further, MTPL has adequate buffer in the working capital limits; the average utilisation was about 70% of the sanctioned fund-based limits.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the company demonstrates a sustainable expansion in scale of operations, increase in profitability, and improvement in working capital management. Specific credit metric for a rating upgrade is interest coverage above 3.5 times on a sustained basis.

Negative factors – A sustained decline in the operating income or a deterioration in profitability metrics could exert negative pressure on the company's rating. Further, any stretch in the working capital cycle that adversely impacts the liquidity profile could lead to a rating downgrade.

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 standalone financial profile of the company.

About the company

Incorporated in 1997, MPP Technologies Private Limited manufactures and fabricates heavy and light sheet metals, which mainly cater to the electrical industry. The company's key products include control panels, corrugated transformer tanks and metal doors. MTPL derives significant synergistic benefits from the operation of its Group company, TTPL, which has common promoters and key management personnel.

Key financial indicators (audited)

MTPL Standalone	FY2019	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	212.1	225.0	218.9
PAT (Rs. crore)	1.3	0.9	4.3
OPBDIT/OI (%)	10.9%	8.4%	9.5%
PAT (%)	0.6%	0.4%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	1.8	1.8
Total Debt/OPBDIT (times)	4.5	4.5	4.1
Interest Coverage (times)	2.2	1.8	2.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					August-03-2021	Jun-29-2020		Dec-06-2018
1	Fund Based Limit	Long Term	44.00	-	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Non-fund Based Limit	Short Term	17.57	-	[ICRA]A2	[ICRA]A2	-	[ICRA]A2

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit/ Bank Guarantee	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	44.00	[ICRA]BBB(Stable)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	17.57	[ICRA]A2

Source: *MTPL*

Annexure-2: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 079 4027528
sanket.thakkar@icraindia.com

P Krishi Keyan
+91 40 40676522
krishi.keyan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches