September 08, 2022

Machino Polymers Limited: [ICRA]A- (Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Unallocated	10.0	[ICRA]A-(Stable)/ [ICRA]A2+; assigned
Total	**10.0**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in Machino Polymers Limited's (MPL) established operational track record and its promoter's extensive experience of several decades in the polypropylene (PP) compounds business for the domestic automotive market. The company is a leading supplier of PP compounds to original equipment manufacturers (OEMs) in the automotive industry, specifically passenger vehicles (PVs) and two-wheelers (2Ws), with limited presence in the white goods segment. Leveraging the same, MPL has developed a wide customer base of reputed tier-1 auto ancillaries who service leading automotive OEMs such as Maruti Suzuki India Limited (MSIL), Hyundai Motor India Limited (HMIL), Toyota Kirloskar Motor Private Limited (TKM), Tata Motors Limited and Honda Motorcycle and Scooter India Private Limited (HMSI). MSIL, the market leader in the PV segment, indirectly accounts for most of MPL's revenues. Established relationships with its customers have resulted in repeat order inflow over the years, driving MPL's revenue growth. The ratings also factor in MPL's comfortable financial risk profile as marked by a comfortable capital structure, healthy debt protection metrics and adequate liquidity profile. MPL reported healthy revenue growth in FY2022, after moderation in sales in last two fiscals due to the slowdown in the automotive industry, accentuated by the pandemic. Further, the company is likely to report healthy revenue growth in the near to medium term supported by improved demand, addition of new customers, increased contribution from non-auto segments and capacity expansion. Moreover, the debt protection metrics are expected to strengthen over the medium term aided by increased internal accrual generation without any material increase in leverage levels.

The ratings are, however, constrained by MPL's moderate profit margins owing to relatively limited value addition, high competitive intensity of the industry and vulnerability to volatility in prices of key raw materials. Although there exists a provision of raw material cost pass on with a lag of one quarter with most of the customers, the quarterly lag exposes the company to such fluctuations in the interim period. Moreover, the company is also exposed to foreign currency fluctuation risk as sizeable (40-50%) part of the raw material requirement is met through imports. MPL has a selective hedging policy and continues to evaluate the feasibility of hedging its forex exposure on a regular basis. The ratings also factor in the relatively high working capital intensity of the business, driven by high receivable and inventory levels. The company also remains exposed to high customer concentration risk as the top ten customers account for 60-65% of its revenue and MSIL indirectly contributing to ~60% of MPL's revenue. However, the concentration has declined to some extent in recent years and is expected to decline further over the medium term, with addition of new customers and increased supplies to non-auto segments.

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 members of 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, Ahmedabad and Chennai in 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 such as MSIL, HMIL, TKM and HMSI, among others. MPL is a leading supplier of PP compounds to MSIL, routed through the latter's tier-1 auto ancillaries.

Comfortable financial risk profile – The company reported revenues of Rs. 604 crore in FY2022[1], translating into 51% YoY growth and good recovery after moderation in sales in the last two fiscals due to the slowdown in the automotive industry, further accentuated by the pandemic. MPL is likely to report healthy revenue growth in the near to medium term supported by improved demand, addition of new customers, increased contribution from non-auto segments and capacity expansion. The company's profitability is likely to improve marginally with benefits of economies of scale, although remaining susceptible to volatility in raw material prices and foreign exchange rates. MPL's capital structure and coverage indicators have remained comfortable in recent years mainly due to no major increase in debt levels owing to no major debt-funded capex. The debt protection metrics were comfortable with gearing of 0.6 time and TOL/TNW[2] of 1.5 times as on March 31, 2022, and interest coverage of 4.9 times in FY2022. Moreover, these metrics are expected to strengthen over the medium term aided by increased internal accrual generation without any material increase in leverage levels.

Credit challenges

Moderate profit margins, which remained volatile owing to fluctuating raw material prices and forex rates – The company derives its revenue from its PP compounding business, which entails relatively limited value addition. Coupled with high competitive intensity and volatility in key raw material prices, this has led to moderate profitability indicators for MPL. The company's operating margins are susceptible to fluctuations in the price of key raw materials—PP and elastomers. Although it has demonstrated ability to mostly pass on the increase in raw material costs, it is usually done with a lag of 3-4 months, leading to volatile margins over the years. Moreover, the company is also exposed to foreign currency fluctuation risk as sizeable (40-50%) part of the raw material requirement is met through imports. The company has a selective hedging policy and continues to evaluate the feasibility of hedging its forex exposure on a regular basis with availment for buyers' credit basis anticipated forex movement.

High competitive intensity of the industry limits pricing flexibility – Due to the competitive nature of business, the company faces pressures from other global and domestic suppliers in terms of pricing flexibility. However, it benefits to an extent from its established operational track record and established relationships with its key customers, with whom it enjoys a sizeable share of business.

High customer concentration risk, although the same has declined to an extent in recent years – The company remains exposed to high customer concentration risk as its top 10 customers account for 60-65% of its revenue and MSIL indirectly drives ~60% of MPL's revenue. However, the concentration has declined to some extent in recent years and is expected to decline further over the medium term, with addition of new customers (OEMs being serviced indirectly through tier-1

[1] *As per provisional financials*

[2] *Total outside liabilities/ Total net worth*

ancillaries) and increased supplies to non-auto segments. In terms of segmental concentration, PVs accounts for 80-85% of the sales at present, followed by 2Ws at ~10% and white goods accounting for the balance. However, the contribution from 2Ws 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 is required to maintain inventory of 60-90 days for its customer requirements. Coupled with a receivable cycle of around 90-100 days, this has led to relatively high working capital intensity with NWC/OI[3] of ~29% in FY2022. The funding requirements are met through credit of up to 60 days from its vendors, availment of buyers' credit and other working capital lines from the bank. Incremental funding requirements of the business emanating from healthy anticipated growth in the current fiscal are expected to be funded through internal accruals and sanctioned working capital lines.

Liquidity position: Adequate

MPL's liquidity is **adequate**, supported by steady internal accrual generation, cash and bank balances/liquid investments of ~Rs. 13.0 crore as of July 31, 2022, and average unutilised limits of Rs. 30-40 crore over the past 12 months. Moreover, MPL does not have any major debt repayment liability or any debt-funded capex plans in the near to medium term. Coupled with increased level of internal accrual generation in FY2023, this is expected to further support its 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 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 rating downgrade. Specific credit metrics that could lead to a downgrade of MPL's ratings include interest coverage of less than 4.0 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	For arriving at the ratings, ICRA has considered the consolidated financials of MPL. As on March 31, 2022, the company had two subsidiaries, which are enlisted in Annexure-2.

[3] *Net working capital/ Operating income*

About the company

Incorporated in 1996, MPL manufactures PP compounds that find application in the exteriors and interiors of automobiles and, therefore, primarily caters to the automotive industry. The company has been promoted by the Jindal family and is currently headed by Mr. Arjun Jindal. MPL's manufacturing facilities are in Gurgaon, Ahmedabad, and Chennai, with a total installed capacity of ~86,000 MT per annum. The company primarily supplies PP compounds to auto component manufacturers, which are major tier-1 suppliers to established automotive OEMs.

Key financial indicators (audited)

MPL – Consolidated	FY2021	FY2022 (Prov.)
Operating Income (Rs. crore)	399.4	604.8
PAT (Rs. crore)	7.0	18.1
OPBDIT/OI (%)	4.1	5.3
PAT/OI (%)	1.7	3.0
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.5
Total Debt/OPBDIT (times)	4.3	3.0
Interest Coverage (times)	4.0	4.9

PAT: Profit after Tax; OI: Operating Income; 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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 8, 2022			
1	Unallocated	Long-term/ Short-term	10.0	-	[ICRA]A- (Stable)/[ICRA] A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
-	Unallocated	-	-	-	10.0	[ICRA]A- (Stable)/[ICRA] A2+

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	MPL Ownership	Consolidation Approach
Artemis FZ LLC	100.0%	Full Consolidation
Comp Tech FZ LLC	100.0%	Full Consolidation

Source: *Company*

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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.

For more information, visit www.icra.in

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