October 28, 2022

Micro Plastics Private Limited: Ratings reaffirmed; outlook revised to negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	-	30.00	Rating reaffirmed at [ICRA]A; outlook on the long-term rating revised to negative from stable
Long-term fund based	100.00	100.00	Rating reaffirmed at [ICRA]A; outlook on the long-term rating revised to negative from stable
Long-term fund based – Sublimit	-	(15.00)	Rating reaffirmed at [ICRA]A; outlook on the long-term rating revised to negative from stable
Long-term non fund based – Sublimit	-	(15.00)	Rating reaffirmed at [ICRA]A; outlook on the long-term rating revised to negative from stable
Short-term fund based	-	30.00	[ICRA]A2+; reaffirmed
Short-term fund based – Sublimit	-	(15.00)	[ICRA]A2+; reaffirmed
Short-term non fund based – Sublimit	-	(30.00)	[ICRA]A2+; reaffirmed
Long-term/Short-term – Unallocated	75.30	15.30	Rating reaffirmed at [ICRA]A /[ICRA]A2+; outlook on the long-term rating revised to negative from stable
Total	**175.30**	**175.30**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating follows the likely moderation in Micro Plastics Private Limited's (MPPL/the company) expected performance for FY2023. Backed by its established presence, enhancement of capabilities and favourable demand environment, the company was expected to post higher revenues and profits. While the revenue growth remains healthy, the company's margins are likely to moderate from earlier-expected levels, impacted by its limited pricing flexibility; cost inflation and incomplete pass-through of the same; and sub-optimal capacity utilisation in the new factory till volumes ramp up fully. The company's operating margins reduced to 9.1% in FY2022 (according to unaudited financials) from historic levels of above 15% in last several years. Further, MPPL reported operating losses in Q1 FY2023. While the revision in pricing, softening of RM prices in the recent months and better capacity utilisation in the new facility resulted in margin uptick in Q2 FY2023 to 5.6% at the consolidated level, the margins remain significantly weaker than historic levels. Further, although the increase in the value addition offered by MPPL in the new facilities and continuation of the improving trend witnessed in the recent months could support MPPL's margins in H2 FY2023, the extent of improvement remains to be seen. MPPL is undertaking debt-funded growth capex at an estimated cost of Rs. 140.0 crore during FY2023 – FY2025. This apart, the company's working capital cycle has elongated with relatively higher debtor and inventory days in FY2021 and FY2022. As a result of weaker accruals, debt-funding of capex and higher working capital intensity, MPPL's debt levels are likely to be higher-than-expected in FY2023. The company's ability to successfully scale up revenues/accruals, optimise utilisation of the incremental capacities and moderate debt levels would be critical.

The ratings remain supported by MPPL's established customer profile comprising global leaders in the toy manufacturing space, its healthy revenue growth prospects and comfortable debt metrics. Nevertheless, the company's ability to maintain the debt metrics at comfortable levels given the pressure on accruals, ongoing capex, and increase in working capital intensity remains a monitorable. MPPL experiences competition from Chinese players and it has relatively high customer concentration, with the top three customers contributing to over 60% of revenues in FY2022. Its revenues remain vulnerable to the low switching costs and ease of availability of alternatives, although MPPL's ability to add new customers mitigates the risk to an extent.

Key rating drivers and their description

Credit strengths

Established market presence with customer profile comprising leading players in the industry – MPPL is one of the largest contract manufacturers and exporters of branded toys and model hobby kits from India. It derives 80% of its revenues from the toy segment and counts several leading global players in the toy industry as its customers. The company has had repeat orders from customers over the years, apart from addition of several reputed customers in the last 12 to 18 months. Further addition of customers is also expected, with MPPL's ongoing capacity expansion and as global players diversify their supplier base.

Healthy revenue growth prospects over the medium term - The growth prospect for Indian toy makers is healthy over the medium term, stemming from overall market growth and China+1 strategy adopted by global toy manufacturers. This is expected to aid MPPL's revenue growth as well going forward. MPPL has also expanded its capabilities recently, adding rotor moulding and blow moulding, and these are also likely to augur well for the company going forward. However, in the near term, MPPL's revenues could be impacted by the global slowdown, which is likely to affect discretionary spending.

Comfortable debt metrics – MPPL had comfortable net gearing of 1.0 times (according to unaudited financials) as on March 31, 2022. Further, the coverage metrics also remained comfortable with interest coverage of 5.0 times and DSCR of 1.7 times as on March 31, 2022 (according to unaudited financials). The company's ability to maintain the debt metrics at comfortable levels given the pressure on accruals, ongoing capex, and increase in working capital intensity remains a monitorable.

Credit challenges

Margins vulnerable to cost inflationary pressures and competitive threats – MPPL's margins are susceptible to rise in raw material and other expenses in the absence of a concrete pass-through mechanism. The company was not able to completely pass through the cost inflation completely and it reflected in reduction in operating margins, to 9.1% in FY2022 (according to unaudited financials) from 17.2% in FY2021. While MPPL reported operating losses in Q1 FY2023, revision in pricing, softening of RM prices in the recent months and better capacity utilisation in the new facility resulted in margin uptick in Q2 FY2023 to 5.6% at the consolidated level. Despite the sequential improvement, the margins remain significantly weaker than historic levels. Further, MPPL witnesses competition from Chinese players, which are significantly larger than the company in scale, thereby limiting its pricing flexibility. Although the increase in the value addition offered by MPPL in the new facility and continuation of the improving trend witnessed in the recent months could support MPPL's margins in H2 FY2023, the extent of improvement remains to be seen.

Relatively high debt-funded capex plans over FY2023 and FY2024 - MPPL is undertaking debt-funded growth capex at an estimated cost of Rs. 140.0 crore during FY2023 – FY2025. This apart, the company's working capital cycle has elongated with relatively higher debtor and inventory days in FY2021 and FY2022. As a result of weaker accruals, debt-funding of capex and higher working capital intensity, MPPL's debt levels are likely to be higher-than-expected in FY2023. The company's ability to successfully scale up revenues/accruals, optimise utilisation of the incremental capacities and moderate debt levels would be critical.

Revenues exposed to customer concentration risks – MPPL derives more than 60% of revenues from its top 3 customers, resulting in significant customer concentration risks. Accordingly, the company's performance is susceptible to loss of customers or their under-performance. Its demonstrated ability to add new customers, however, mitigates the risk to an extent. Further, MPPL witnesses competition from Chinese players, who are significantly larger than the company in scale and the company's revenues are vulnerable to the low switching costs and ease of availability of alternatives.

Liquidity position: Adequate

MPPL's liquidity is adequate supported by consolidated cash and bank balances of Rs.19.3 crore and undrawn working capital lines of Rs. 80.5 crore as on September 30, 2022. Its working capital utilisation was moderate, at around 50% of drawing power for the 12-month period September 2021 to October 2022 for the standalone entity. As against this, the company has debt repayment obligations of Rs. 12.8 crore in H2 FY2023, Rs. 21.9 crore in FY2024 and Rs. 21.7 crore in FY2025 on its existing loans. It also has capex plans of Rs. 70.0 crore in FY2023, Rs. 40.0 crore in FY2024 and Rs. 30.0 crore in FY2025, part of which is expected to be debt-funded. Further the presence of private equity investors (Premji Invest Limited and ADV Partners) enhances its financial flexibility.

Rating sensitivities

Positive factors – An upgrade in rating is unlikely in the near term, given the moderation in MPPL's performance. Nevertheless, ICRA could revise MPPL's long-term rating outlook to stable if there is significant improvement in margins and debt metrics while maintaining adequate liquidity position.

Negative factors – Pressure on MPPL's rating could arise if there is sustained pressure on earnings or cost overrun in the ongoing capex, leading to weakening of debt coverage metrics and liquidity position. Specific credit metrics that could lead to a downgrade would be interest coverage < 4x on sustained basis.

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 consolidated financial profile of the company.

About the company

MPPL was incorporated by Mr. Vijendra Babu in 2005. In 2021, ADV Partners (Pinnacle Ace Investment Holdings Pte Limited) and Premji Invest Limited (PI Opportunities Fund) acquired majority stake in the company and hold 63.92% and 30.08% shares respectively at present with the remaining held by Mr. Vijendra Babu. It is primarily a contract manufacturer and exporter of toys and model hobby kits to the US/UK as well as European brands and derives around 80% of revenues from the same. Apart from this, the company manufactures plastic injection components, tooling and sub-assemblies for automotive, sport equipment, power tools, appliances, electricals, electronics, telecoms and heavy engineering. The company has various international certifications like Walmart Factory Capability and Capacity Audit (FCCA) and Global Supply Chain Security (GSCS), Facility and Merchant Authorisation (FAMA) certification for Disney and ISO 9001-2008, among others. Apart from the standalone entity, MPPL has recently formed a wholly owned subsidiary, MPlastics Toys and Engineering Private Limited, engaged in the same line of business as the standalone entity, but with enhanced capabilities.

Key financial indicators (audited)

Consolidated	FY2021	FY2022 (Unaudited)
Operating Income (Rs. crore)	302.4	371.3
PAT (Rs. crore)	10.4	21.7
OPBDIT/OI (%)	17.2%	9.1%
PAT/OI (%)	3.4%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.9
Total Debt/OPBDIT (times)	2.0	3.8
Interest Coverage (times)	10.0	5.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

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 of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					28-Oct-2022	07-Jan- 2022	-	-
1	Long-term - Term loans	Long term	30.00	19.00	[ICRA]A(Negative)			
2	Long-term fund based	Long term	100.00	-	[ICRA]A(Negative)	[ICRA]A (Stable)		
3	Long-term fund based – Sublimit	Long term	(15.00)	-	[ICRA]A(Negative)			
4	Long term non fund based – Sublimit	Long term	(15.00)	-	[ICRA]A(Negative)			
5	Short-term fund based	Short term	30.00	-	[ICRA]A2+			
6	Short-term fund based – Sublimit	Short term	(15.00)	-	[ICRA]A2+			
7	Short term non fund based – sublimit	Short term	(30.00)	-	[ICRA]A2+			
8	Long Term/Short Term- Unallocated	Long term/ Short term	15.30	-	[ICRA]A(Negative)/[ICRA]A2+	[ICRA]A (Stable)/[ICRA]A2+		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term loans	Simple
Long-term fund based	Simple
Long-term fund based – Sublimit	Simple
Long term non fund based – Sublimit	Very Simple
Short-term fund based	Simple
short-term fund based – Sublimit	Simple
short term non fund based – sublimit	Very Simple
Long Term/Short Term- 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2023	8.05%	FY2029	30.00	[ICRA]A(Negative)
NA	Capex LC - Sublimit of term loan	NA	NA	NA	(15.00)	[ICRA]A(Negative)
NA	CC	NA	NA	NA	100.00	[ICRA]A(Negative)
NA	EPC/PCFC	NA	NA	NA	30.00	[ICRA]A2+
NA	CC-Sublimit of EPC/PCFC	NA	NA	NA	(15.00)	[ICRA]A(Negative)
NA	LC - Sublimit of EPC/PCFC	NA	NA	NA	(30.00)	[ICRA]A2+
NA	WCDL - Sublimit of EPC/PCFC	NA	NA	NA	(15.00)	[ICRA]A2+
NA	Unallocated	NA	NA	NA	15.30	[ICRA]A(Negative)/[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation
MPlastics Toys And Engineering Private Limited	100.00%	Full Consolidation

Source: Company

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