February 13, 2023

Maini Precision Products Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term Loan	144.89	74.00	[ICRA]A- (Stable); Reaffirmed
Long term / Short term – Fund based/non-fund-based – Working capital – Others	181.00	241.00	[ICRA]A- (Stable)/ [ICRA]A2+; Reaffirmed
Total	**325.89**	**315.00**	

Instrument details are provided in Annexure I

Rationale

The ratings continue to consider Maini Precision Products Limited's (MPPL or the company) established position as a manufacturer of high-precision machined components for the automotive (~80% of revenues) and aerospace industries (~20% of revenues). The ratings also consider MPPL's strong promoter and operational profiles, exhibited by its long-standing relations with reputed clients such as Eaton Corporation, Magnetic Marelli S.p.A, Bosch Limited, Volvo, Black and Decker Corporation, Honeywell International Inc, Safran SA, etc., in the automotive and aerospace segments across various geographies. Further, the order book of over Rs. 740 crore as on December 30, 2022, lends revenue visibility, going forward. In FY2022, the company posted a strong revenue growth of 44.5% on a YoY basis, given the low base in FY2021 and improved demand in the automotive and aerospace segments. The operating profit margins (OPM) also expanded by 340 bps to 12.3% in FY2022, backed by improved scale of operations. Further, in 9M FY2023, the company posted a YoY revenue growth of ~22% largely backed by ~87% YoY growth in the aerospace business. The OPM remained at 12.5% in 9M FY2023. Going forward, healthy revenue growth is expected, aided by its existing order book position and new orders from customers.

The ratings are, however, constrained by the high working capital intensity (NWC/OI of 43% and 44% as on March 31, 2022, and December 31, 2022, respectively) due to higher inventory stocking requirements. Consequently, the debt metrics remained moderate with Net debt (excluding CCPs)/OPDBITA at 3.9 times as of March 31, 2022, and 3.4 times as of December 31, 2022. Going forward, while MPPL's outstanding long-term debt is expected to reduce with regular repayments and no major debt-funded capex, however, its working capital debt is expected to increase in line with the expected improvement in scale. However, debt metrics are expected to improve with expected improvement in OPBDITA. The ratings are also constrained by MPPL's moderate RoCE levels (core RoCE of 6.5% and 8.4% in FY2022 and 9M FY2023, respectively) due to significant capex incurred in the past for expansion, which is yet to generate optimum returns. Further, the ratings remain constrained by the exposure of MPPL's earnings to the cyclicality in the auto industry, moderate customer concentration risk with the top-five customers accounting for ~53% of revenues in H1 FY2023, and exposure to high exchange-rate fluctuations with exports accounting for ~65% of revenues.

ICRA notes that the company had filed for DRHP in December 2021. However, at present, the company is trying to raise equity from private equity investors. ICRA will continue to monitor the developments in this regard and evaluate the same, as and when more information is available.

The Stable outlook on the long-term rating reflects ICRA's expectations that MPPL will continue to benefit from its established position and relationships with reputed customers, which will support healthy revenue growth over the near term. That said, the improvement in debt metrics will remain monitorable.

Key rating drivers and their description

Credit strengths

Established position with experienced promoter, supported by a strong management team – Founded by Dr. S. K. Maini in 1973, MPPL has an established position as a manufacturer of high-precision components for the automotive industry. The second generation has now taken over and has over 25 years of experience in the automotive industry, which supports established relationships with OEMs as well as suppliers. Further, the company extended its expertise to the aerospace industry, wherein it started component manufacturing and supply for aircraft engines and aero structures from FY2004.

Healthy order book lends revenue visibility – The company had a healthy order book of more than Rs. 740 crore as of December 31, 2022, which is expected to be executed over the near term, thereby lending revenue visibility. The company's revenue is supported by improving orders from existing customers and addition of new customers.

Reputed client profile with established relationships – The company has developed strong relationships with its key customers across the aerospace and automotive industries. MPPL's customer profile consists of reputed Tier-1 players and OEMs such as Bosch, Eaton, Magneti Marelli, Volvo, Safran and Marshall Aerospace, among others. The company has more-than-a-decade relationship with majority of its customers.

Credit challenges

High working capital intensity leading to moderate debt coverage metrics – As on December 31, 2022, the net working capital (NWC) intensity (NWC/operating income) remained high at 44%, mainly due to high inventory stocking requirements. ICRA notes that MPPL needs to maintain inventory for timely servicing of its customer orders. However, inventory days were high at 181 (~Rs. 235 crore) as on December 31, 2022, due to higher stocking of materials for the aerospace business, which typically tends to have a longer lead time (given the pandemic-induced supply-chain disruptions), and deferral/cancellation of certain orders in the automotive segment (which is expected to get converted to deliveries in the near term). MPPL's working capital requirements are expected to remain high, largely on account of the inventory requirements which need to be maintained for its supply to the export markets. Further, the debt metrics remained moderate due to high working capital intensity and term debt, which was availed in the previous years to fund the capex requirements of the company. ICRA notes that MPPL's net debt (excluding CCPs[1])/OPDBITA improved to 3.4 times as on March 31, 2022, compared with 8.1 times as on March 31, 2021, however, remained at a moderate level. Going forward, while the company's outstanding long-term debt is expected to reduce with regular repayments and no major debt-funded capex, the working capital debt is expected to increase in line with the expected revenue growth. The improvement in debt metrics backed by increasing profitability remains a key monitorable.

Moderate core RoCE levels – The company had undertaken substantial capital expenditure between FY2018 and FY2020 to enhance its capacities. However, returns on the same have been deferred due to the Covid-19 pandemic-induced lockdowns, cyclicality in the automotive segment and decline in aerospace revenues, thereby leading to moderate core RoCE levels (6.5% in FY2022 and 8.4% in 9M FY2023). While ICRA notes the growth in scale of operations and gradual improvement in profitability margins are expected to support the improvement in RoCE over the near to medium term, the same remains monitorable.

Vulnerability of margins to foreign exchange fluctuations – With exports contributing to ~65-70% of the company's revenues, MPPL's profitability is susceptible to exchange-rate fluctuations. The company is exposed to the volatility in the US Dollar, Euro, Swedish Krona, Canadian Dollar and British Pound. However, the company is a net exporter, and has an active hedging policy of covering one-third of its net open exposure, which has aided it to generate healthy exchange gains over the past few years. The forex gains amounted to Rs 5.8 crore in FY2021 and Rs 10.8 crore in FY2022.

[1] CCPS – Compulsorily Convertible Preference Shares issued by MPPL to its PE investors and included as financial liability due to INDAS accounting.

Exposed to cyclicality in automotive industry and moderate customer concentration – In 9M FY2023, MPPL derived ~80% of its revenues from the automotive segment and ~20% from the aerospace segment, exposing its revenues to the cyclicality in demand from these segments. While the company has a wide base of customers, however, it is exposed to moderate customer concentration as it derived ~53% of its revenues from the top-five customers during H1 FY2023. That said, MPPL's well-established relationships with major OEMs also partly mitigate this risk.

Liquidity position: Adequate

MPPL's liquidity position is adequate, with cash and liquid investments of ~Rs. 9 crore as on December 31, 2022. Apart from this, the company had undrawn available working capital limits of Rs. 28.6 crore as on December 31, 2022. Further, the company has received enhancement in working capital limits of Rs. 40 crore from its existing lenders, which is expected to support the liquidity buffer, subject to availability of drawing power. The average working capital utilisation remained at ~81% for the last 12-month period ended on December 31, 2022. The repayment obligations on existing term debt are ~Rs. 7 crore for Q4 FY2023, ~Rs. 29 crore and ~Rs. 20 crore, respectively, in FY2024 and FY2025. The company is expected to incur maintenance capex of ~Rs. 15-20 crore in FY2023 and ~Rs. 50 crore in FY2024 for expanding its capacities. ICRA notes that the capex is expected to be undertaken from internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if there is any substantial growth in revenue and profitability, better working capital management, and improvement in capitalisation and coverage indicators. A specific credit metric for an upgrade is if net debt excluding CCPS/OPBDITA is less than 2.0 times, on a sustained basis.

Negative factors – The company's ratings could be downgraded, if cash accrual is lower than expected, or if any major capital expenditure, or inability to improve its working capital cycle weakens liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Auto Component Suppliers
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has taken standalone financial statement of MPPL

About the company

MPPL, incorporated in 1973 by the Late Dr. S.K. Maini, is presently handled by second-generation promoters. MPPL is a process capability company with a focus on precision machining and related processes like heat treatment, sheet metal work, forming, etc. It mainly supplies machined components to the automotive and aerospace industries. It has 11 plants in Bengaluru and its facilities are approved by large auto and aerospace customers. MPPL operates as a Tier-2 supplier for majority of its customers. Its manufactured products are mainly used in engines (fuel injection, cylinder, cylinder head, crank-shaft assembly, power train, etc).

Key financial indicators

MPPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	433.1	625.8
PAT[2] (Rs. crore)	-46.9	-18.3
OPBDITA/OI (%)	8.9%	12.3%
PAT/OI (%)	-10.8%	-2.9%
Total outside liabilities/Tangible net worth (times)	-29.2	-18.6
Total debt/OPBDITA (times)	14.3	7.5
Net debt excluding CCPS/OPBDITA (times)	8.1	3.9
Interest coverage (times)	1.8	3.6

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All Amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] *Adjusting for fair value loss on CCPS, the PAT/OI worked out to -4.2% in FY2021 and 2.8% in FY2022*

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 Dec 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Feb 13, 2023	Dec 07, 2021	Dec 28, 2020	Mar 23, 2020
1	**Fund based - Term Loan**	Long-term	74.00	74.00	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A (Negative)**	**[ICRA]A (Negative)**
2	**Fund based/Non fund based – Working Capital – Others**	Long-term/ Short-term	241.00	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A (Negative)/ [ICRA]A1**	**[ICRA]A (Negative)/ [ICRA]A1**

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term Loan	Simple
Long term / Short term – Fund based/non-fund-based – Working capital – Others	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Fund based - Term Loan**	FY2018/FY2022	~8-8.25%	FY2026	74.00	[ICRA]A- (Stable)
NA	**Long term / Short term – Fund based/non-fund-based – Working capital – Others**	NA	NA	NA	241.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company; Note: Amounts in Rs. crore

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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