

May 08, 2024

## MPlastics Toys and Engineering Private Limited: Ratings downgraded to [ICRA]BBB+/[ICRA]A2; Outlook on the long-term rating revised to 'Stable' from 'Negative'

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	105.00	105.00	Downgraded to [ICRA]BBB+ from [ICRA]A-; Outlook revised to Stable from Negative
Long-term fund based – Sublimit	(30.00)	(30.00)	Downgraded to [ICRA]BBB+ from [ICRA]A-; Outlook revised to Stable from Negative
Long-term non fund based – Sublimit	(45.00)	(45.00)	Downgraded to [ICRA]BBB+ from [ICRA]A-; Outlook revised to Stable from Negative
Long-term fund based – Sublimit	(45.00)	(45.00)	Downgraded to [ICRA]BBB+ from [ICRA]A-; Outlook revised to Stable from Negative
Long-term non fund based – Sublimit	(20.00)	(20.00)	Downgraded to [ICRA]BBB+ from [ICRA]A-; Outlook revised to Stable from Negative
Short-term fund based	60.00	60.00	Downgraded to [ICRA]A2 from [ICRA]A2+
Short-term fund based – Sublimit	(60.00)	(60.00)	Downgraded to [ICRA]A2 from [ICRA]A2+
Short-term non fund based	20.00	20.00	Downgraded to [ICRA]A2 from [ICRA]A2+
Short-term non fund based – Sublimit	(30.00)	(30.00)	Downgraded to [ICRA]A2 from [ICRA]A2+
<b>Total</b>	<b>185.00</b>	<b>185.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has taken a consolidated view of Micro Plastics Private Limited (MPPL/the company) and MPlastics Toys and Engineering Private Limited (MTEPL) given that MTEPL is a 100% subsidiary of MPPL and also considering the strong operational and financial linkages between the entities.

The revision in ratings considers MPPL's subdued performance in FY2024 and expected moderation in MPPL's earnings in FY2025 owing to a weak global demand environment. Besides, relatively higher borrowings, stemming from loans availed for capex and working capital purposes in the last few years, has impacted the debt metrics in FY2023 and FY2024. ICRA expects the company's debt metrics to remain moderate in FY2025 as well.

Globally, toy companies witnessed subdued demand in FY2023 and FY2024 because of gloomy macro-economic conditions and its consequent impact on discretionary spending. This is expected to continue in FY2025, and would affect demand for industry players (including MPPL). Besides, there is competition from Chinese players, resulting in further pressure on revenues and accruals. However, the company's plans to meaningfully penetrate segments other than toys is likely to support revenues, going forward. Over the medium-to-long term, growth prospects for Indian toy makers, including MPPL, remain healthy, stemming from the overall market growth and 'China +1' strategy of global toy manufacturers.

While the company's operating margins improved to 7.3% in FY2024 (unaudited financials) from operating losses in FY2023, aided by operational efficiencies and softening of raw material prices, it continued to remain weaker than the historical average of 16-17% during FY2019-FY2021. The same was impacted by limited pricing flexibility, incomplete pass-through of cost escalations, and sub-optimal capacity utilisation. MPPL reported net losses of Rs. 28.5 crore and marginal cash profits of

Rs. 2.8 crore in FY2024 (unaudited financials). While its margins are expected to improve going forward with cost-optimisation initiatives and volume ramp-up, the extent of improvement remains to be seen in the light of competitive pressure and anticipated increase in proportion of revenues from the non-toy segment. ICRA expects the operating margins to remain significantly lower than the historical levels, at least over the next 1-2 years.

MPPL's interest coverage stood at 1.1 times, while its Total Outside Liabilities<sup>1</sup>/Tangible Net Worth (TOL/TNW) stood at 3.2 times in FY2024. While the company's DSCR for FY2024 stood at 0.5 times, adequate liquidity in the form of free cash and liquid investments of Rs. 52.8 crore as on March 31, 2024 and undrawn working capital lines of Rs. 78.9 crore as on March 31, 2024 provide comfort to an extent. In November 2024, the private equity investors invested compulsorily convertible preference shares (CCPS) of Rs. 100 crore in MPPL, for funding its operational and financial commitments.

The ratings remain supported by MPPL's established customer base, comprising global leaders in the toy manufacturing space. MPPL is one of the largest contract manufacturers and exporters of branded toys and model hobby kits from India. Its clientele includes several leading global players in the toy industry and has received repeat orders/periodic addition from customers over the years. MPPL, however, has relatively higher customer concentration risk, as more than 50% of its revenues come from its top three customers.

## Key rating drivers and their description

### Credit strengths

**Established market presence, clientele includes leading industry players** – MPPL is one of the country's largest contract manufacturers and exporters of branded toys and model hobby kits. It derives 70-80% of its revenues from the toy segment and its customer base includes several leading global players from the toy industry. The company has received repeat orders and made periodic customer additions over the years. MPPL is expected to add more customers following the recent capacity expansion and the global players' move to diversify their supplier base.

**Increasing proportion of revenues anticipated from the non-toys segment, going forward** – The company has derived 70-80% of its revenues historically from the toys segment. MPPL plans to significantly expand its presence in segments other than toys, which include networking equipment, skating, shoes, massager etc. over the medium term, primarily in the domestic market. The same would reduce the company's susceptibility of revenues to demand slowdown in the toys segment and its exposure to global demand dynamics for its products. Further, the new products do not exhibit seasonality in demand. Also, higher volumes from the incremental orders would help improve the capacity utilisation and result in better operating leverage.

**Fund infusion from PE investors in H2 FY2024** – In November 2024, the private equity investors invested compulsorily convertible preference shares (CCPS) of Rs. 100 crore in MPPL for funding its operational and financial commitments. The company used ~Rs. 50 crore of the same for working capital purposes, while the remaining has been parked as liquid investments. The free cash and liquid investments of Rs. 52.8 crore and undrawn working capital lines of Rs. 78.9 crore against the sanctioned working capital facilities as on March 31, 2024, provide comfort.

### Credit challenges

**Moderate debt metrics** – MPPL reported operating losses in FY2023 and marginal cash profits of Rs. 2.8 crore in FY2024 (unaudited financials), owing to suboptimal capacity utilisation and inability to completely pass on the cost inflation, given its limited pricing flexibility amid demand slowdown and competition. relatively higher borrowings, stemming from loans availed for capex and working capital purposes in the last few years, has impacted the debt metrics in FY2023 and FY2024. MPPL's interest coverage stood at 1.1 times while its Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.2 times in FY2024. While the company's DSCR for FY2024 stood at 0.5 times, adequate liquidity in the form of free cash and liquid

<sup>1</sup> Total Outside Liabilities includes lease liabilities

investments of Rs. 52.8 crore as on March 31, 2024 (from the PE fund infusion of Rs. 100 crore in H2 FY2024) and undrawn working capital lines of Rs. 78.9 crore as on March 31, 2024, provide comfort to an extent. While the margins are expected to improve going forward with cost-optimisation initiatives and volume ramp-up, the extent of improvement remains to be seen. ICRA expects the operating margins to remain lower than the 16-17% levels witnessed during FY2019 to FY2021, at least over the next 1-2 years. ICRA expects the debt metrics to remain moderate in FY2025.

**Challenging demand environment in the near term** – Globally, toy companies witnessed subdued demand in FY2023 and FY2024 because of gloomy macro-economic conditions and its consequent impact on discretionary spending. This is expected to continue in FY2025, and would affect demand for industry players (including MPPL). Besides, there is competition from Chinese players, resulting in further pressure on revenues and accruals. However, the company’s plans to meaningfully penetrate segments other than toys is also likely to support revenues, going forward. Over the medium-to-long term, growth prospects for Indian toy makers, including MPPL, remain healthy, stemming from the overall market growth and ‘China +1’ strategy of global toy manufacturers.

**Revenues exposed to customer concentration risk** – MPPL derives more than 50% of its revenues from its top three customers, resulting in significant customer concentration risk. Accordingly, the company’s performance is susceptible to loss of customers or their under-performance. Further, MPPL witnesses competition from Chinese players, which are significantly larger than the company in scale and its revenues are vulnerable to the low switching costs and ease of availability of alternatives. Its demonstrated ability to add new customers and concrete measures to enhance penetration in the end segments other than toys, however, mitigate the risk to an extent.

### Liquidity position: Adequate

MPPL’s liquidity is adequate, supported by the free cash and liquid investments of Rs. 52.8 crore as on March 31, 2024, undrawn working capital lines of Rs. 78.9 crore as on March 31, 2024 and anticipated accruals from the business. Its working capital utilisation was moderate at around 61% of the sanctioned limit for the 12-month period between April 2023 and March 2024. In November 2024, the private equity investors invested CCPS of Rs. 100 crore into MPPL, for funding its operational and financial commitments. Against these sources of cash, the company has debt repayment obligations of Rs. 24.8 crore in FY2025, Rs. 24.1 crore in FY2026 and Rs. 20.5 crore in FY2027 on its existing and sanctioned loans. It also has capex plans of Rs. 54.0 crore<sup>2</sup> in FY2025 and Rs. 40.0 crore in FY2026, to be funded by internal accruals and debt.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company is able to considerably scale up its revenues, while improving operating profitability, thereby supporting credit metrics and liquidity profile. Specific credit metrics that could lead to an upgrade include DSCR of more than 1.8 times on a sustained basis.

**Negative factors** – Pressure on MPPL’s ratings could arise in the absence of material improvement in earnings, leading to weakening of debt coverage metrics and liquidity position.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

<sup>2</sup> Includes current capex liabilities reported in FY2024

## About the company

MPPL is a contract manufacturer and exporter of branded toys and model hobby kits. It exports to the US, Hong Kong and the UK, among others. It derives 70-80% of its revenues from the toy segment and its clientele includes several leading global players from the toy industry. In addition, the company manufactures plastic injection components, tooling and sub-assemblies for automotive, sports equipment, power tools, appliances, electricals, electronics, telecoms and heavy engineering. The company has a wholly-owned subsidiary, MPlastics, which is also engaged in similar business. The manufacturing plants are located in Anekal and Harohalli Industrial Area, Karnataka for MPPL and in Hosur, Tamil Nadu for MPlastics. As on March 31, 2024, ADV Partners (through Pinnacle Ace Investment Holdings Pte Limited) and Premji Invest Limited (through PI Opportunities Fund) held a 64.94% and a 30.56% stake, respectively in the company (on a fully diluted basis), while the remaining was held by Mr. Vijendra Babu, who founded the company.

## Key financial indicators

Consolidated	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	364.0	375.9
PAT	-62.6	-28.5
OPBDIT/OI	-6.7%	7.3%
PAT/OI	-17.2%	-7.6%
Total outside liabilities*/Tangible net worth (times)	7.0	3.2
Total debt*/OPBDIT (times)	-12.5	10.5
Interest coverage (times)	-1.1	1.1

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.; \*Includes lease liabilities as well

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				08-May-2024	08-Jun-2023	25-Nov-2022	-
1 Long-term - Term loans	Long-term	105.00	52.28	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	-
2 Long-term fund based – Sublimit	Long-term	(30.00)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	-
3 Long-term non fund based – Sublimit	Long-term	(45.00)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	-
4 Long-term fund based – Sublimit	Long-term	(45.00)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	-
5 Long-term non fund based – Sublimit	Long-term	(20.00)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	-
6 Short-term fund based	Short-term	60.00	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	-
7 Short-term fund based – Sublimit	Short-term	(60.00)	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	-
8 Short-term non fund based	Short-term	20.00	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	-
9 Short-term non fund based – Sublimit	Short-term	(30.00)	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term loans	Simple
Long-term fund based – Sublimit	Simple
Long term non fund based - Sublimit	Very 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	Very Simple
short term non fund based – sublimit	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 are available on ICRA's website: [Click Here](#)

**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	8-9%	FY2029	105.00	[ICRA]BBB+ (Stable)
NA	FCTL - Sublimit of term loans	NA	NA	NA	(30.00)	[ICRA]BBB+ (Stable)
NA	Capex LC - Sublimit of term loans	NA	NA	NA	(45.00)	[ICRA]BBB+ (Stable)
NA	CC - Sublimit of EPC/PCFC	NA	NA	NA	(45.00)	[ICRA]BBB+ (Stable)
NA	BG - Sublimit of LC	NA	NA	NA	(20.00)	[ICRA]BBB+ (Stable)
NA	EPC/PCFC	NA	NA	NA	60.00	[ICRA]A2
NA	Post shipment credit/WCDL - Sublimit of EPC/PCFC	NA	NA	NA	(60.00)	[ICRA]A2
NA	LC	NA	NA	NA	20.00	[ICRA]A2
NA	LC - Sublimit of EPC/PCFC	NA	NA	NA	(30.00)	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

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

Source: Company

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### Branches



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