

Milacron India Private Limited

February 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based	24	24	[ICRA]A (Stable) reaffirmed
Short Term – Non Fund Based	20	20	[ICRA]A1 reaffirmed
Total	44	44	

Rating action

ICRA has reaffirmed the long term rating of [ICRA]A (pronounced as ICRA A) on the Rs. 24 crore¹ long term fund based limits of Milacron India Private Limited (MIPL)². ICRA has also reaffirmed the [ICRA]A1 (pronounced as ICRA A one) rating on the Rs. 20 crore short term non-fund based limits of MIPL. The outlook on the long-term rating is 'Stable'.

Rationale

The ratings continue to factor in the strong market position of the company in the injection moulding machine segment, its track record of profitable operations and a conservative capital structure. While the presence in export markets provides geographical diversification of revenues and allows better utilization of manufacturing facilities, it also exposes the company's profitability to unfavourable foreign currency movements owing to long production cycle and credit period offered after shipment of machines. Nonetheless, the risk is partly mitigated by way of natural hedge offered by imports coupled with use of forward contracts. The ratings also continue to factor in the superior liquidity position supported by healthy liquid investments and the healthy cash generation of the company that shall be sufficient to meet its capex requirements from its own internal accruals going forward.

The ratings are however constrained by the large distribution payouts over the last few years to the parent company and the highly competitive business environment in which the company operates as well as the cyclicity of the project capital expenditure in its end user industries. The company's operations are exposed to competition from cheap imports from China and South-East Asia, though the current Anti Dumping Duty on imports from China, Vietnam, Philippines, Malaysia and Taiwan partly act as a protective factor. ICRA also notes that MIPL's product portfolio is largely dependent on the capex cycles of end user industries and thus, revenue growth remains dependent on the cyclicity of the project capex in these industries as well as ability to scale up the volumes in non-regular segments like medical components, electrical & electronics and industrial components. ICRA further notes that the company is currently nearing the completion of an expansion programme and successful ramp up of volumes from the same would be critical for future revenue growth. ICRA notes that the company has had high distribution payouts to its parent company – Milacron Inc over the last four-five years, however, the same has not affected MIPL's financial flexibility till date, despite it being in the midst of a capex plan. On account of the Compulsorily Convertible Debentures (CCDs) brought into MIPL for the

¹ 100 lakh = 1 crore = 10 million

² For complete rating definition, please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

acquisition of group company – Mold Master Technology Private Limited (MMTPL), there would be a Rs 22 crore fixed interest outflow to parent company going forward, however, given the healthy cash accruals, ICRA considers the same to be credit neutral. However, any significant material financial support extended to its parent company through declaration of dividends/ buybacks/extension of loans & advances that lower MIPL's financial flexibility will be a key rating sensitivity.

Outlook: Stable

The stable outlook reflects ICRA's expectation that MIPL will continue to grow in scale and expand its market share in the plastic moulding machine manufacturing industry supported by healthy demand growth from various end-user industries and its technological superiority over a majority of the domestic and imported machinery suppliers.

The outlook may be revised to 'Positive' if there is a material improvement in scale and financial risk profile of the company. The outlook may be revised to 'Negative' if there is a significant increase in the overall receivables position of the company or any material financial support extended to parent company through declaration of dividends/ buybacks/extension of loans that lower MIPL's financial flexibility.

Key rating drivers

Credit strengths

Established position in the injection/blow moulding machine industry as reflected in the continuing growth in machine sales - The company has steadily increased its sales of machines from below 100 machines in early 2000s to 450-500 machines per annum in the period 2007-2009 and to over 1800 machines in FY 2017. MIPL has successfully demonstrated the high quality of its machines with respect to high productivity (faster cycle time), high precision (product quality and dimensions) as well as energy efficiency (lower power cost which typically accounts for 20% of the production cost). These factors have facilitated MIPL in establishing a strong brand in the domestic market. The total number of moulding machines sold by the company in the last few years has been on an upward trend with sales volumes increasing by 31% to 1398 machines in FY 2015, by 4% to 1454 machines in FY 2016 and by 11% to 1608 machines in FY 2017 despite the challenging economic scenario. Although the domestic demand for moulding machines from some of the key user industries like packaging, automotive, consumer durables and house ware had slowed down during the last couple of years, MIPL was able to report healthy growth in domestic sales by increasing its focus on other non regular industry segments like medical components, electrical & electronics, industrial components etc. MIPL's presence across wide range of tonnage capacity along with the superior operational performance of its machines enables it to cater to a number of segments and provides it an edge over other domestic manufacturers.

Healthy pending order book position - MIPL continues to maintain its dominant position in the Indian moulding machine market, garnering ~30% market share in FY 2017 compared to 28% and 25% during FY 2016 and FY 2015 respectively and continues to be the leader in the domestic market. The company's pending order book position as on November 2017 remained healthy at 617 machines and ~Rs 320 crore (0.41 x times of FY 2017 operating income). These orders are expected to be delivered within a maximum of six months indicating a modest revenue growth expectation in the current fiscal.

Technology transfer from the parent supports machine upgradations -MIPL's growth has been supported by technology transfer from its parent Milacron LLC (ML) which has manufacturing operations in North America, Europe and Asia. ML provides technology and procurement support (international suppliers) as required by MIPL in addition to its own in-house technology improvements. MIPL gets access to the technology at the cost of royalty payments of approx. 2% on total sale value.

Presence across all end users segments and tonnage capacity requirements and diversified customer base - The rigid/semi-rigid plastics produced through injection/blow molding process find applications in most industries like Packaging, Construction, Consumer Durables, Automotives, Medical equipment, Electrical House ware and other Industrial applications. The company supplies moulding machines to dedicated Original Equipment Manufacturers (OEMs) and other players who supply desired product components and parts to these industries for manufacturing the final product. Further, it has the ability to manufacture moulding machines of wide range of clamping pressure capacities from 30 to 3200 MT. The company's sales are well diversified with top ten customers accounting for less than 20% of total revenues and no single customer accounting for over 6-7% of total revenue. Further, the company average of machines sold per customer is also low – in the range of 2-3 machines per customer which not only reduces customer concentration risk but also limits debtor concentration.

Comfortable financial risk profile supported by healthy returns and liquidity position – MIPL has been generating healthy annual returns on the back of its superior market position as indicated by an RoCE of 33% in FY2017 and has been meeting all its capex requirements from internal accruals. As on February 2018, MIPL is debt free and has cash balances of over Rs 140 crore at consolidated level indicating its healthy liquidity position

Credit weaknesses

Competitive pressures from few established domestic players and imports; Risk is partially mitigated by anti-dumping duty notification on CIF value to discourage cheaper imports – While competition is faced by MIPL, the company has successfully been able to maintain the sales of its machines amid increasing competition from cheaper Chinese imports and other large organised moulding machine manufacturers like Toshiba Machine Pvt. Ltd. (erstwhile L&T Plastic Machines Ltd.) and Windsor Machines Ltd. as well as several smaller players. Further, Anti Dumping duty ranging from 29-30% exists on the CIF value of moulding machinery in the range of 40-1000 MT clamping force on imports from China, Vietnam, Malaysia, Taiwan and Phillipines which protects domestic players like MIPL to some extent. However, while imports still continue to meet over 40% of the domestic demand, MIPL has demonstrated its ability to compete with them on technology as well as cost competitiveness. Despite reduction in the rate of duty, MIPL has not had any significant impact on its profitability.

Moderate currency risks because of the long lead time, production cycle and credit period offered after shipment of machines - Foreign exchange risk on imports(~40% of total requirement) is mitigated through hedging policy, though the company keeps its position open to some extent backed by external and internal market research opinion. A large part of the risk is also naturally hedged through its export realisations in foreign currencies, which, in value terms have remained largely in-line with the imports. However, the long production cycle and credit period offered after shipment of machines can result in currency exposure if kept un-hedged.

MIPL's sales volumes are largely dependent on the fortunes of end-user industries and hence exposed to cyclicity of the project capex in these industries – While MIPL has a diversified end-used industry base, sales are exposed to capex cycles across industries. From time to time, there is slowdown in demand from some key user industries, however, the company tries to ensure that the lower sales in the particular industry is replaced by higher sales in the other industry where demand is high.

Expected interest payouts to parent company to have a moderate effect on surplus cash generation of MIPL going forward – MIPL has completed the acquisition of a group company MMTPL, Coimbatore – a company that manufactures hot runner systems for moulds, in H1FY2018 with effective date of March 1, 2017. The acquisition of the debt-free company with a Profit After Tax (PAT) of Rs 23.42 crore on sales of Rs 135.6 crore in FY 2017 was completed largely by funds infused in MIPL by the parent company. These funds included Rs 200 crore of Compulsorily Convertible Debentures (CCDs) with annual coupon of 11%. The step follows Milacron LLC's plans to consolidate all companies operating in the country into one company to simplify its financial statements and to reduce the burden of statutory compliances. ICRA believes that while the interest payment of Rs 22 crore annually on these CCDs will not exert any material pressure on cash flows, given the healthy profitability, the same would result in reduced internal cash generation at MIPL going forward. Further, while there are no current plans of any additional payouts to parent, any material financial support extended to its parent company through declaration of dividends/ buybacks/extension of loans & advances that lower MIPL's financial flexibility will be a key rating sensitivity.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Founded in 1995, Milacron India Private Limited (MIPL, Erstwhile Ferromatik Milacron India Private Limited (FMIPL)) was set up as a joint venture between Milacron LLC, USA (erstwhile Milacron Inc, USA) and Mr. Mahendra Patel for manufacturing moulding machines, as an import substitute product. Starting with a 51% holding initially, Milacron LLC has increased its holding in the company over the years, and in FY 2011, MIPL became a 100% subsidiary of the company in India. MIPL has an installed capacity of producing around 1800 moulding machines per annum and the manufacturing facilities are located at GIDC, Vatva, Ahmedabad. In FY2017, the company was amalgamated with another subsidiary company of Milacron LLC, USA in India – Mold Master Technologies Pvt Ltd (MMTPL). MMTPL has a plant near Coimbatore, TN and is in business of manufacturing of hot runner products, including hot runner systems, temperature controllers, hot halves, and gating technologies.

In FY2017, the company reported a net profit of Rs. 72 crore on an operating income of Rs. 788 crore, as compared to a net profit of Rs. 76 crore on an operating income of Rs. 718 crore in the previous year.

Key Financial Indicators (Consolidated)

	FY2016	FY2017*
Operating Income (Rs. crore)	718	788
PAT (Rs. crore)	76	72
OPBDIT/ OI (%)	16.4%	14.5%
RoCE (%)	67.1%	33.0%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	161.5	56.3
NWC/ OI (%)	4%	11%

*Includes 1month of financials of MMTPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on February 2018 (Rs Crore)	Date & Rating February 2018	Date & Rating in FY17 December 2016	Date & Rating in FY16 November 2015	Date & Rating in FY15 October 2014
1	Fund based-CC	Long Term	24	24	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non fund based- LC/BG	Short Term	20	20	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	CC	-	-	-	24	[ICRA]A (Stable)
NA	BG/LC	-	-	-	20	[ICRA]A1

Source: Milacron India Private Limited

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Ankit Patel

+91 79 4027 1509
ankit.patel@icraindia.com

Aashay Choksey

+91 79 4027 1526
aashay.choksey@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents