

March 07, 2018

Maini Precision Products Limited

Summary of rated instruments

Instrument*	Previous Rated Amount	Rated Amount (Rs. crore)	Rating Action
Long-term-Term loans	26.92	85.50	[ICRA]A (Stable); Reaffirmed
Long-term- Fund-based/CC	60.00	131.00	[ICRA]A (Stable); Reaffirmed
Short- term-Fund-based	31.00	-	-
Short-term- Non-fund-based(Sub-limit)	-	22.00	[ICRA]A1; Reaffirmed
Total	117.92	216.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 85.50-crore¹ (enhanced from Rs. 26.92 crore) term loans and Rs. 131.00-crore (enhanced from Rs. 60.00 crore) fund-based facilities of Maini Precision Products Limited (MPPL/ the company). ICRA has also assigned a short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 22.00-crore non-fund-based facilities (sub-limit) of the company². The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation factors in the long track record of company, its technical expertise in manufacturing high quality machined precision components for the automotive (~85% of revenues) and aerospace sectors, and the longstanding relationship with an established customer base comprising of automotive and aerospace majors, both in India and globally. To support new orders from existing customers and new clients, the company invested in development of new automotive and aerospace plants in Bommasandra and Pennya respectively during 9M FY2018. While the new plant and its strong order book of Rs. 596.0 crore as of December 31, 2017 provide revenue visibility to the company over the medium term, margins for 9M FY2018 declined to 8.8% from 13.5% in FY2017 on account of high product development expense. To support the sizeable capex plans of ~Rs. 73 crore, the company availed additional term loans during 9M FY2018, impacting its capitalization and coverage indicators. Total debt/ net worth and total debt/ OPBITDA increased from 0.7 times and 1.5 times in FY2017 to 1.3 times and 3.9 times in 9M FY2018 respectively. The company is expected to take further term loans to support its future capex plans of ~Rs. 50 crore per year during FY2019 and FY2020, going forward. However, supported by new projects and high process efficiencies the company is expected to post considerable revenue growth and margin expansion during FY18-20, supporting its financial risk profile, going forward.

The ratings remain constrained by the high customer concentration risk, with top three customers contributing ~60% to revenues in 9M FY2018. Although, the company enjoys geographical diversification, it remains exposed to fluctuations in exchange rates, which is mitigated to certain extent by hedging. With the company deriving ~85% of its revenues from automotive sector, it remains exposed to cyclicity of the automotive sector. The sizeable capital investments have impacted its margins and capitalisation indicators during FY2018; ability to improve the same over the next 12-24 months is a key monitorable.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that MPPL will continue to benefit from its strong order book, technical expertise and investment in capex supporting its business prospects. The outlook may be revised to 'Positive' if substantial improvement in revenues, capitalization and coverage indicators, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or a higher than expected debt funded capital expenditure weakens liquidity.

Key rating drivers**Credit strengths**

- **Long track record of operations and technical expertise in manufacturing high quality machined precision products:** Since its inception in 1973, the company has acquired technical expertise and operates as Tier-1 or Tier-2 supplier to global majors in the automotive and aerospace segments namely Bosch GmbH, Volvo Group, Eaton Group, General Electric, etc.
- **Long standing relationship with reputed client base comprising of global players:** As evidenced from repeat orders received by the company, it enjoys established relationship with its key customers present in the automotive and aerospace industry. The company also acts as a global single source for some components for its key customers like Volvo and Bosch.
- **Strong order pipeline lends revenue visibility:** The company expects to sustain growth momentum with a strong order book of over Rs.590.0 crore as on December 31, 2017. The company's revenue is supported by higher orders from existing customers and addition of new customers like Asian Auto Parts, Cummins India Limited, etc to its clientele.
- **Healthy geographical diversification of revenue insulates the company from region specific risk :** By virtue of its customer profile, the company enjoys a fairly diversified revenue streams with India contributing ~41% to revenues during FY2017 and 9M FY2018, followed by Europe contributing ~36% and ~ 32% of revenues during FY2017 and 9M FY2018.

Credit weaknesses

- **Customer concentration remains high:** With the top customer (Bosch) contributing to ~30% and top three customers contributing ~61% to revenues in FY2017, customer concentration remains high for the company. However, the same is partially mitigated as the customer groups are spread across different geographies governed by varied demand-supply cycles.
- **Heavy capex impacting debt indicators:** With heavy capex plans, the company has availed additional term loans during 9M FY2018, impacting the debt indicators, gearing increased from 0.7 times as on March 31, 2017 to 1.3 times as on December 31, 2017 while TD/OPBDITA increased from 1.5 times as on March 31, 2017 to 3.9 times as on December 31, 2017. Further with high working capital intensity in the business, the requirement for working capital loans remains high. The company is expected to incur capex to the tune of Rs. 50 crore to support its operations, going ahead.
- **Vulnerability of margins to foreign exchange fluctuations:** With exports contributing to ~60% of the company's revenues, the company is susceptible to exchange rate fluctuations. The company is exposed to dollars, euro, Swedish krone, Canadian dollars and British pound. Nevertheless, the same is mitigated to some extent by its active hedging mechanism undertaken by the company.

- **MPPL remains exposed to the cyclicity of the automobile industry in India:** With ~85% of revenues derived from automotive segment, the company's revenues and earnings are dependent on the auto-industry cycles. However, with new contract wins in the higher margin aerospace segment, the company is expected to diversify its revenue stream, going forward.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating methodology for entities in auto ancillary industry](#)

About the company:

Maini Precision Products Limited (MPPL) was incorporated in 1973 by Mr. S.K. Maini. Prior to starting this company Mr. S.K. Maini was a general manager in Mico-Bosch in Bangalore and first Indian to become a general manager in Bosch group. Its major associate companies include Armes Maini Storage Systems Private Limited, Maini Plastics and Composites Private Limited, Maini Material Movement Private Limited and TOMCAR India Private Limited. The group companies of MPPL are primarily engaged in engineering and auto sector. MPPL is a process capability company with a niche focus on precision machining and related processes like heat treatment, sheet metal work, forming etc. It mainly supplies machined components to Auto, Engineering and Aero-space industry. It has ten plants in Bangalore and its facilities are approved by large auto and aerospace customers including General Motors, Volvo, Eaton, BT, Redler, Bosch, Delphi, Black and Decker, Magneti Marelli, MTU, Snecma, Marshall, Goodrich, GE and Boeing. MPPL operates as a Tier-1 or Tier-2 supplier for these companies. Its manufactured products are mainly used in engine (fuel injection, cylinder, cylinder head, crank shaft assembly, power train etc).

Key financial indicators (Audited):

	FY2016	FY2017
Operating Income (Rs. crore)	310.9	398.7
PAT (Rs. crore)	6.5	29.3
OPBDIT/ OI (%)	8.4%	13.4%
RoCE (%)	13.3%	27.6%
Total Debt/ TNW (times)	1.2	0.7
Total Debt/ OPBDIT (times)	3.1	1.5
Interest Coverage (times)	4.7	7.9
NWC/ OI (%)	20.3%	23.4%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31 2017 (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					March 2018	March 2017	April 2016	June 2015
1	Term loans	Long Term	85.5	48.8	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based/CC	Long Term	131.0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund-based(Sub-limit)	Short Term	22.0	-	[ICRA]A1	-	-	-
4	Fund-based	Short Term	0.0	-	-	[ICRA]A1	[ICRA]A2+	[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	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans-1	Nov- 2017	NA	Oct- 2020	27.5	[ICRA]A (Stable)
NA	Term loans-2	Oct-2017	NA	Oct-2022	33.0	[ICRA]A (Stable)
NA	Term loans-3	Nov-2016	NA	Nov- 2020	25.0	[ICRA]A (Stable)
NA	Fund-based/CC	NA	NA	NA	131.0	[ICRA]A (Stable)
NA	Non-fund-based(Sub-limit)	NA	NA	NA	22.0	[ICRA]A1

*Source: the 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.

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