

## MPP Technologies Private Limited

December 06, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-based Limit	29.00	29.00	[ICRA]BBB(Stable); Reaffirmed
Short Term - Non-fund Based Limit	17.00	17.57	[ICRA]A2; Reaffirmed
Long Term - Fund-based Term Loan	0.00	22.00	[ICRA]BBB(Stable); Reaffirmed
Long Term - Non-fund Based Facilities	0.00	4.50	[ICRA]BBB(Stable); Reaffirmed
Unallocated Limit - Long Term	25.00	0.00	-
Unallocated Limit - Long Term/Short Term	32.61	0.00	-
<b>Total</b>	<b>103.61</b>	<b>73.07</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation considers MPP Technologies Private Limited's (MTPL's) established presence in the steel fabrication industry with a reputed client base, and the synergic benefits from the presence of TTP Technologies Private Limited (TTPL, a Group company, rated [ICRA]A(Stable)/[ICRA]A2) in a related business stream. TTPL has extended low-cost funding support to MTPL, enabling the latter to reduce dependence on the higher cost external debt funding.

The ratings, however, continue to be constrained by the exposure of MTPL's profitability to fluctuations in key raw material prices and the relatively low value-adding nature of the steel fabrication industry which, in turn, is characterised by intense competition. This is evidenced in the decline in profitability margins in FY2018 and H1 FY2019. The ratings are further constrained by the relatively higher working capital intensity of the company's operations and moderate debt coverage metrics. Further, the ratings consider the company's vulnerability to foreign exchange risk, partially mitigated by the opportunistic hedging policy adopted. Also, the client concentration risk, with the top five clients contributing to ~55% of the company's revenue in FY2018, constrains the ratings. The ratings further consider the company's ongoing capacity expansion plan in FY2019 for a total cost of Rs. 29 crore, which is being funded through a term loan of Rs. 22 crore and the balance, through internal cash accruals.

The company's ability to achieve a robust revenue growth, while sustaining healthy profitability levels through prudent sourcing of raw materials, will be closely monitored going forward.

### Outlook: Stable

The outlook may be revised to Positive if there is substantial growth in revenue and profitability, and if a better working capital management strengthens the financial risk profile. The outlook may be revised to a Negative if the operating margins are lower than expected, or if any major capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

## Key rating drivers

### Credit strengths

**Established track record in steel fabrication industry** - MTPL has decades of experience in the steel fabrication industry and benefits from the extensive relationships with customers, as demonstrated by the repeat orders received YoY.

**Reputed client base** - The company's clientele constitutes reputed companies, such as ABB Limited, Crompton Greaves, Siemens AG etc, which are key players in the capital goods segment across the world.

**Synergic benefits from presence of TTPL in similar business stream** – TTPL's presence in a related business stream (namely manufacturing of transformer radiators) provides the company with synergic benefits in terms of raw material procurement at lucrative prices and opportunities for product cross-selling.

### Credit challenges

**Exposure to volatility in raw material prices** - MTPL's profitability is exposed to movement in the price of its key raw material, steel. This is because raw material costs generally account for ~40% of the company's operating income (OI). Hence, MTPL's ability to timely pass on any increase in the raw material prices to customers remains crucial.

**Vulnerability to forex rate fluctuations** - MTPL remains vulnerable to forex rate fluctuations, given that the net exposure/OI stood at ~31% in FY2018. Although the company adopts a hedging policy, safeguarding revenues from the impact of currency rate fluctuations will remain critical for the overall performance.

**Relatively low value-adding nature of operations; intense competition** - MTPL's operations are not very technologically intensive and primarily involve fabrication, welding and painting activities. Further, the industry is highly fragmented in nature and characterised by intense competition.

**Relatively high working capital intensity** - The increased inventory requirements based on raw material price fluctuations and increase in receivables result in the company's relatively high working capital intensity.

### Liquidity position

As on March 31, 2018, the company had a cash balance position of Rs. 2 crore and access to sanctioned fund-based limits of Rs. 34-crore. The company also has access to Rs. 17-crore non-fund based limits.

The long-term debt availed by the company comprises loan from TTPL and unsecured loans from the Directors. In FY2019, the company has availed a Rs. 22-crore term loan towards capex requirements for its production capacity expansion. As per the repayment schedule of this term loan, the company has to repay Rs. 2.4 crore in FY2019 and the remaining amount till FY2023 in unequal instalments.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Group Company: TTP Technologies Private Limited MTPL has received funding support from TTPL in the form of low-cost debt in FY2018. MTPL also gets significant synergic benefits from TTPL as the raw materials required by the two companies are largely common (including steel and paints). This enables the Group to negotiate a better deal from the suppliers. Further, the two companies target the same customer segment to sell their products; hence, there is a significant scope of cross selling each other products. The diversified product portfolio of MTPL also enables the Group to use scraps from one product line as raw materials for another line.
Standalone	The ratings are based on standalone assessment of the issuer.

## About the company

Incorporated in 1981, MPP Technologies Private Limited manufactures and fabricates heavy and light sheet metals, which mainly cater to the electrical industry. The company's key products include control panels, corrugated transformer tanks and metal doors. MTPL derives significant synergistic benefits from the operation of its Group company, TTPL, which has common promoters and key management personnel.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	192.9	194.7
PAT (Rs. crore)	3.9	1.8
OPBDIT/OI	14.0%	11.4%
RoCE	12.2%	7.92%
Total Debt/TNW (times)	1.4	1.1
Total Debt/OPBDIT (times)	2.9	3.0
Interest Coverage (times)	2.9	2.6
NWC/OI	24.8%	23%

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

**Any other information: None**

### Rating history for last three years

S. No	Name of Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2018	Month-year & Rating in FY2017	Month-year & Rating in FY2016	
				December 2018	October 2017	May 2016	October 2015	
1	Fund Based Limit	Long Term	29.00	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2	Non-fund Based Limit	Short Term	17.57	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
3	Long Term – Fund-based Term Loan	Long Term	22.00	[ICRA]BBB(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
4	Long Term – Non-fund Based Facilities	Long Term	4.50	[ICRA]BBB(Stable)	-	-	-	

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISI						
No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund-based Limit	-	-	-	29.00	[ICRA]BBB(Stable);
NA	Short Term - Non-fund Based Limit	-	-	-	17.57	[ICRA]A2;
NA	Long Term - Fund-based Term Loan	March 2018	-	March 2023	22.00	[ICRA]BBB(Stable);
NA	Long Term - Non-fund Based Facilities	-	-	-	4.50	[ICRA]BBB(Stable);
NA	Unallocated Limit - Long Term	-	-	-	0.00	-
NA	Unallocated Limit - Long Term/Short Term	-	-	-	0.00	-

Source: MPP Technologies Private Limited

## Annexure-2: List of entities considered for consolidated analysis: Not applicable

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