

January 22, 2020

## Metal Impacts Private Limited: Ratings reaffirmed at [ICRA]BB+ (Stable) and [ICRA]A4+

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Cash Credit	15.00	15.00	[ICRA]BB+ (Stable); Reaffirmed
Short Term-Letter of Credit	2.00	2.00	[ICRA]A4+; Reaffirmed
<b>Total</b>	<b>17.00</b>	<b>17.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings continues to derive comfort from Metal Impacts Private Limited's (MIPL) established track record and the extensive experience of its promoters in the aluminium aerosol containers industry. The ratings also take into account its reputed client base across industries, from whom it has been receiving repeat orders. Increasing demand of aerosol containers backed by improvement in demand in end user categories like deodorants, cosmetics, pain reliever sprays, etc is likely to support its growth prospects. The ratings consider its comfortable capital structure and debt protection metrics over the years.

The ratings, however, remain constrained by the subdued operating and net profit margins on account of high employee and selling expenses. The ratings factor in the stiff competition from other established players, which limits MIPL's pricing flexibility and bargaining power vis-à-vis its customers, leading to pressure on margins. The ratings take note of the vulnerability of its profits margins to fluctuations in aluminium prices, given its limited ability to transfer any adverse price increase to its customers, as witnessed in FY2019.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that MIPL will continue to benefit from the extensive experience of its promoters and its established track record in manufacturing of aluminium aerosol containers.

### Key rating drivers

#### Credit strengths

**Established track record of four decades in aluminium aerosol containers industry:** MIPL is promoted by Mr. Lakshminarayan and his family members, having extensive experience in the aluminium aerosol container industry. MIPL has a track record of more than four decades in manufacturing aluminium aerosol containers and has made regular investments towards modernisation of its manufacturing facilities in order to improve product quality and achieve higher production efficiency. Over the years, it has added new customers from different industries such as FMCG, pharmaceutical and pesticides, among others.

**Reputed clientele across diversified product lines:** MIPL is one of the leading manufacturers of aluminium aerosol containers and enjoys a strong share of business with most of the reputed fillers. The sales are made via fillers such as Accra Pac India Pvt. Ltd., Rubicon Formulations Pvt. Ltd. and Vanessa Cosmetics, etc, which source the cans from MIPL and fill the same with fragrances obtained from the principal clients (brand owners) such as Godrej Industries Ltd, Wipro Consumer Care and J.K Helene Curtis Limited. MIPL also supplies to Rallis India Ltd, FMC India, Nagarjuna Agrichem Limited, Asian Paints Limited, Bayer Cropscience Limited, Luxor Pens and Dharampal Satyapal, etc, across its other product lines.

**Comfortable capital structure and debt coverage metrics:** MIPL's financial risk profile remained comfortable as characterised by its comfortable capital structure with a gearing on 1.0 times as on March 31, 2019 and comfortable debt protection metrics with interest coverage of 2.6 times and TOL/TNW of 2.5 times as on March 31, 2019.

## Credit challenges

**Vulnerability of profitability to any adverse fluctuations in raw material prices:** The company's operating profitability remains exposed to volatility in aluminium prices, which contributes to around 55% of the operating cost. Any adverse movement in the aluminium prices could have an adverse impact on MIPL's margins, considering its limited ability to transfer the price rise to its customers. However, it does not have any long-term agreements with its customers and operates on monthly orders, which mitigates the risk to some extent.

**High customer concentration while established relationship provides comfort:** The company's customer concentration remained high in FY2019, with top five customers accounting for 60.2% of its revenues, compared to 67.7% in FY2018. However, MIPL is able to get repeat orders from its customers owing to its established track record, superior product quality, timely delivery, and long relationship with its customers.

**Stiff competition, marked by presence of reputed international and domestic players:** MIPL faces stiff competition from other established players such as Bharat Containers Pvt Ltd, Aero Cans India Private Limited, which limits its pricing flexibility and bargaining power with customers. This leads to pressure on its revenues and margins. Further, with the entry of European players such as Casablanca Industries and Ball Corporation having large installed capacities and fully-automated manufacturing facilities, the competition has intensified.

## Liquidity position: Adequate

The company's liquidity position is **adequate** given the absence of capital expenditure plans and term loan repayment obligations. The cash accruals are expected to be sufficient to meet the incremental working capital requirements if any, and the average working capital limit utilisation between June 2018 and November 2019 stood at 78.7%, providing some buffer to meet any contingencies.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade MIPL's ratings if the company demonstrates healthy growth in operating income and improvement in profit margins on a sustained basis, leading to improved capital structure and debt protection metrics. Demonstration of a more efficient management of working capital, would be the key for a higher rating. Specific credit metrics that could lead to an upgrade in ratings include ROCE of more than 12.0%.

**Negative triggers** – Negative pressure on MIPL's ratings may arise, if any reduction in the company's revenues and profitability weakens the coverage indicators, or further increase in the working capital intensity tightens its liquidity position. Specific credit metrics that could lead to a downgrade in ratings include OPBDITA/Interest of less than 2.0 times and Total Debt/ OPBITDA more than 4.0 times.

## 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 standalone financial profile of the entity

## About the company

Established in 1978, MIPL is a manufacturer of aluminium aerosol containers for packaging products in India. It has four plants in and around Bangalore with a total installed capacity of 17.20 crore units per annum. At present, the company manufactures aluminium aerosol cans, aluminium pesticide bottles and other products such as pen barrels and speciality easy open ends (EOE). Its main customers include Accra Pac India Pvt. Ltd., Rubicon Formulations Pvt. Ltd. and Vanessa Cosmetics etc., which in turn supply to brand owners such as McNroe Consumer products Pvt. Ltd., J.K. Helene Curtis Limited, CavinKare Pvt. Ltd., TTK Healthcare Ltd. etc.

In FY2019, the company reported a net profit of Rs. 0.9 crore on an OI of Rs. 125.5 crore compared to a net profit of Rs. 1.1 crore on an OI of Rs. 125.1 crore in the previous year.

## Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	125.1	125.5
PAT (Rs. crore)	1.1	0.9
OPBDIT/ OI (%)	4.4%	3.6%
RoCE (%)	13.5%	9.5%
Total Debt/ TNW (times)	0.8	1.0
Total Debt/ OPBDIT (times)	2.4	3.8
Interest Coverage (times)	2.3	2.6
DSCR	2.1	2.4

## Status of non-cooperation with previous CRA: NA

## Any other information: None

## Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2019 (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Cash Credit	Long term	15.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Letter of Credit	Short term	2.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4

## 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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	15.00	[ICRA]BB+ (Stable)
NA	Letter of Credit	-	-	-	2.00	[ICRA]A4+

Source: Metal Impacts Private Limited

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