December 13, 2019

Miranda Tools Private Limited (erstwhile PMP Auto Components Private Limited)- Update on Material Event; ratings downgraded to [ICRA]BB+ and [ICRA]A4+; outlook revised to Negative

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loan	6.72	6.72	[ICRA]BB+ downgraded from [ICRA]BBB+; Outlook revised to Negative from Stable
Fund Based – Working Capital Facilities	32.00	32.00	[ICRA]BB+ downgraded from [ICRA]BBB+; Outlook revised to Negative from Stable
Non Fund Based – Working Capital Facilities	28.00	28.00	[ICRA]A4+ downgraded from [ICRA]A2
Fund Based/Non Fund Based Facilities	8.00	8.00	[ICRA]BB+ downgraded from [ICRA]BBB+; Outlook revised to Negative from Stable; [ICRA]A4+ downgraded from [ICRA]A2
Unallocated	11.33	11.33	[ICRA]A4+ downgraded from [ICRA]A2
Total	**86.05**	**86.05**	

Material Event

Miranda Tools Private Limited (erstwhile PMP Auto Components Private Limited- MTPL) shared the FY2019 audited financial on December 4, 2019. The company reported an operating income (OI) of Rs. 144.7 crore with an operating profit before depreciation, interest, taxes and amortisation (OPBDITA) of Rs. 14.4 crore and a profit after tax (PAT) of Rs. 12.7 crore in FY2019, against an OI of Rs. 159.7 crore with OPBDITA of Rs. 17.7 crore and PAT of Rs. 16.2 crore in FY2018. Its debt levels have increased significantly to Rs. 136.9 crore as on March 31, 2019 over Rs. 44.8 crore as on March 31, 2018 leading to a sharp deterioration of its debt protection metrics. The company thus has significant scheduled debt repayments in FY2020, while its cash flow from operations remains moderate, thereby stretching its liquidity profile.

Impact of the Material Event

ICRA has downgraded the long-term rating on the company's bank facilities to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BBB+ (pronounced ICRA triple B plus). ICRA has also downgraded the short-term rating on the company's bank facilities to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A2 (pronounced ICRA A two). The outlook on the long-term rating has been revised to Negative from Stable.

Rationale

The downgrade in ratings with Negative outlook considers the sharp deterioration in the company's debt protection metrics with significant increase in borrowings on account of increase in loans and advances due to ongoing restructuring of the company. This has stretched MTPL's balance sheet and adversely impacted its liquidity position with significant scheduled debt repayments in FY2020 against moderate cash flow from operations. ICRA notes the sharp decline in the company's operating profitability in FY2019 due to one-time expenses, which has put further pressure on its debt protection metrics. The ratings remain constrained by its stretched working capital profile due to high inventory requirements. Further, the company's margins remain vulnerable to unfavourable changes in input costs, largely high speed steel (HSS) prices; though, as per the management, the same is partially mitigated by the company's ability to pass on cost increases to the customers, albeit with a lag. The company also is naturally hedged to a large extent owing to its exports as well as imports, although, it still remains marginally exposed to the forex risk.

The ratings, however, continue to take comfort from the strong market position with MTPL being one of the largest players in the industrial cutting tools in India with healthy market share in saws and toolbits in the domestic market. The ratings consider its diversified geographical existence with presence both in India and a few overseas markets. The company also has a fairly diversified customer base with a widespread network of dealers.

Key rating drivers and their description

Credit strengths

Strong market position – MTPL is one of the largest players in the industrial cutting tools in India with healthy market share in saws and toolbits in the domestic market. It is one of the leading players in the drills product segment. The strong market position provides competitive advantage to the company. Further, focus on new product development helps in catering to the market demand with appropriate responsiveness.

Geographically diversified presence and well diversified customer base – The company has presence in India as well as a few overseas markets. It has 10 offices in India with a network of around 250 dealers across geographies. In FY2019, MTPL had streamlined its domestic and overseas sales network in order to improve efficiency. Further, it caters to requirements of various industries and hence the customer profile is fairly diversified.

Credit challenges

Significant increase in debt levels on account of increase in loans and advances due to the ongoing restructuring of the company– There has been a sharp increase in the company's borrowing levels to Rs. 136.9 crore as on March 31, 2019 from Rs. 44.8 crore as on March 31, 2018, largely on account of increase in loans and advances due to the ongoing restructuring of the company. The increase in debt levels had led to deterioration of debt protection metrics with a gearing of 0.9 time and Total Debt/ OPBDITA of 9.5 times in FY2019, compared to a gearing of 0.3 times and Total Debt/ OPBDITA of 2.5 times in FY2018. This has strained MTPL's balance sheet and consequently its liquidity position.

High working capital intensity – The cutting tools business typically requires sizeable inventory stocking of high value raw material. Further, the management, at its discretion, chooses to stock finished goods inventory based on demand prospects. Consequently, the company's working capital intensity is expected to remain high.

Small scale of operation – MTPL's scale of operations has reduced post the sale of the auto components division. Further, the company is now only focusing on the cutting tools business leading to higher business concentration risk.

Susceptibility to raw material price fluctuations – High raw material stocking results in the company being susceptible to unfavourable changes in key input costs, i.e. HSS prices. However, as per the management, the same is partially mitigated by the company's ability to pass on the cost increases to the customer, albeit with a lag.

Liquidity position: Stretched

MTPL's liquidity is stretched with moderate cash flow from operations and sizeable long-term debt repayment of Rs. 20.1 crore in FY2020. However, the company is supported by its non-operating income from its loans and advances. Nevertheless, timely receipt of the same will be critical to support the company's debt servicing. The company has a cash and liquid investments of Rs. 1.7 crore as on March 31, 2019 and an average undrawn line of credit of ~Rs. 4-5 crore.

Rating sensitivities

Positive triggers – ICRA could upgrade MTPL's rating if there is a material decline in its debt levels, supported by reduction in loans and advances leading to decline in Debt/OPBDITA below 3 times on a sustained basis.

Negative triggers – Negative pressure on MTPL's rating could arise if the company's balance sheet remains stretched leading to continued pressure on its debt protection metrics and/or in case of further increase in loans and advances.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on standalone financial statements of MTPL

About the company

Miranda Tools Private Limited was founded in 1962 for the manufacture of switches, relays, regulators and horns. It was taken over by the Piramal family in 1981. The company ventured into windshield washer system in 1993 and starter motors in 2002. Another Group company named Miranda Tools – founded in 1945, taken over by the Piramal Group in 1978 and a division of Piramal Healthcare Limited (PHL) till April 2008 – was involved in manufacturing of cutting tools. In April 2009, PCPL and Miranda were amalgamated into PMP Auto Components Private Limited. The company acquired two European companies, Bakony Wiper Systems (2007) and PAL International (2008), involved in wiper systems manufacturing.

PMP became a part of the Ashok Piramal Group in 2006. In August 2017, the company sold the auto components business to the Pricol Group. At present, its business is limited to manufacture and sale of industrial cutting tools. The product profile includes drills, toolbits, endmills, saws, etc.

Key financial indicators (audited)

	FY2018	FY2018*	FY2019
Operating Income (Rs. crore)	122.8	159.7	144.7
PAT (Rs. crore)	14.9	16.2	12.7
OPBDIT/OI (%)	15.8%	11.1%	9.9%
RoCE (%)	13.6%	16.2%	10.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	1.1
Total Debt/OPBDIT (times)	1.9	2.5	9.5
Interest Coverage (times)	6.1	2.1	2.4
DSCR	2.0	1.8	1.9

**includes 5-month financials of the auto component division*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019	FY2018		FY2017
					13-Dec-19	13-Dec-18	23-Oct-17	8-Jun-17	21-Jun-16
1	Term Loan	Long Term	6.72	5.06	[ICRA]BB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB &	[ICRA]BBB (Stable)
2	Fund Based Limits	Long Term	32.00	-	[ICRA]BB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB &	[ICRA]BBB (Stable)
3	Non Fund Based Limits	Short Term	28.00	-	[ICRA]A4+	[ICRA]A2	[ICRA]A2	[ICRA]A2 &	[ICRA]A2
4	Fund Based/Non Fund Based Limits	Long Term/ Short Term	8.00	-	[ICRA]BB+ (Negative) / [ICRA]A4+	[ICRA]BBB+ (Stable) / [ICRA]A2	-	[ICRA]BBB & / [ICRA]A2 &	[ICRA]BBB (Stable) / [ICRA]A2
5	Unallocated	Short Term	11.33	-	[ICRA]A4+	[ICRA]A2	[ICRA]A2	[ICRA]A2 &	[ICRA]A2

**amount outstanding as on March 31, 2019; Amount in Rs. crore*

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	Term Loan	May 2013	NA	Oct 2019	6.72	[ICRA]BB+ (Negative)
NA	Fund Based	NA	NA	NA	32.00	[ICRA]BB+ (Negative)
NA	Non Fund Based	NA	NA	NA	28.00	[ICRA]A4+
NA	Fund Based/Non Fund Based	NA	NA	NA	8.00	[ICRA]BB+ (Negative)/ [ICRA]A4+
NA	Unallocated	NA	NA	-	11.33	[ICRA]A4+

Source: Miranda Tools Private Limited

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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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