August 19, 2024

Maini Precision Products Limited: Long-term rating upgraded to [ICRA]A and continues on Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term Loan	74.00	44.50	[ICRA]A; upgraded from [ICRA]A- and continues on Rating Watch with Developing Implications
Long term / Short term – Fund based/non-fund-based – Working capital – Others	241.00	241.00	[ICRA]A; upgraded from [ICRA]A- and Continues on Rating Watch with Developing Implications/ [ICRA]A2+; Continues on Rating Watch with Developing Implications
Long term / Short term – Unallocated Limits	-	29.50	[ICRA]A; upgraded from [ICRA]A- and Continues on Rating Watch with Developing Implications/ [ICRA]A2+; Continues on Rating Watch with Developing Implications
Total	**315.00**	**315.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to be on Watch with Developing Implications, given the ongoing merger between Maini Precision Products Limited (MPPL/ the company) and the Raymond Group. The ratings were placed on Watch with Developing Implications in November 2023, following an announcement that the Raymond Group would be acquiring a majority stake of 59.25% in MPPL and that it would subsequently consolidate its existing engineering businesses along with MPPL under a new entity. In the first phase of the transaction, in March 2024, Ring Plus Aqua Limited (a Step-down Subsidiary of Raymond Limited), a wholly owned subsidiary of JK Files and Engineering (which in turn is a wholly owned subsidiary of Raymond Limited) acquired 59.25% stake in MPPL at a consideration of Rs.682 crore and the balance 40.75% stake in the company is currently owned by MPPL's promoters. This transaction also allowed an exit to all existing investors (including the PE investors) in MPPL apart from the promoters. Under the second phase of the transaction, Raymond Limited will consolidate JK Files and Engineering Limited, Ring Plus Aqua Limited, and MPPL into a New Co, wherein Raymond Limited, Ring Plus Aqua Limited and the promoter group of MPPL will own a 66.3%, a 5.2% and a 28.5% stake, respectively. The second phase of the transaction is expected to be completed by the end of FY2025, subject to regulatory approvals.

The ratings upgrade considers MPPL's improving scale of operations along with increasing revenue contribution from the margin accretive aerospace segment and improved debt metrics of the company. ICRA expects that the same would sustain, going forward. The company's scale increased to Rs. 911.1 crore in FY2024 from Rs.625.9 crore in FY2022, witnessing a CAGR of 20.6% during the same period. This was supported by healthy volume growth, higher revenue from the existing customers and new product launches. The revenue contribution from the margin accretive aerospace segment increased to ~32% of the total revenue in FY2024 against ~14% in FY2022, which has supported the company's profitability. In FY2024, the company witnessed a revenue growth of 21.5%, supported by a stable growth in the automotive segment (a YoY growth of ~6%), which contributed ~68% to the company's revenue, and robust growth in the aerospace segment (a YoY growth of ~68%), which accounted for ~32% of the company's revenue during the same period. The company's operating margin improved to 13.5% in FY2024 from 13.0% in FY2023 mainly on the back of improved product mix with higher revenue contribution from the aerospace segment and volume growth, leading to a healthy operating leverage. The company's total debt largely remained unchanged at Rs. 325.2 crore as on March 31, 2024 against Rs.321.8 crore (excluding CCPS) as on March 31, 2023. This combined with improved margins led to an improvement in TD (excluding CCPS) /OPBDITA to 2.6 times as on March 31, 2024 from 3.4 times as on March 31, 2023. Going forward, ICRA expects the company to witness a healthy revenue growth while maintaining its margins and debt metrics.

The ratings continue to consider MPPL's established position as a manufacturer of high-precision machined components for the automotive (65-70% of revenues) and aerospace industries (30-35% of revenues). The ratings also consider MPPL's strong promoter and operational profiles, exhibited by its long relations with reputed clients such as Eaton Corporation, Magnetic Marelli S.p.A, Bosch Limited, Volvo, Black and Decker Corporation, Honeywell International Inc, Safran SA, etc., in the automotive and aerospace segments across various geographies. Further, the order book of over Rs. 1,020 crore as of June 2024, lends revenue visibility, going forward. The company enjoys strong financial flexibility for being a part of the Raymond Group.

The ratings are, however, constrained by the high working capital intensity (NWC/OI of 38.7% in FY2024) mainly due to higher inventory stocking requirements to provide timely services to its customers. The ratings are also constrained by MPPL's moderate RoCE levels (core RoCE of 6.4% and 9.3% in FY2022 and FY2023, respectively) due to significant capex incurred in the past for expansion. While ICRA notes that the growth in scale of operations and a gradual improvement in profit margins have led to an increase in core ROCE to 13.6% in FY2024, sustenance of the same remains monitorable. Further, the ratings remain constrained by the exposure of MPPL's earnings to the cyclicality in the auto industry, moderate customer concentration risk with the top five customers accounting for ~53% of revenues in FY2024, and exchange rate fluctuations with exports accounting for 65-70% of its revenues.

Key rating drivers and their description

Credit strengths

Established position with experienced promoter group, supported by a strong management team – Founded by Dr. S. K. Maini in 1973, MPPL has an established position as a manufacturer of high-precision components for the automotive industry. The second generation has now taken over and has more than 25 years of experience in the automotive industry, which supports established relationships with OEMs as well as suppliers. Further, the company extended its expertise to the aerospace industry, wherein it started component manufacturing and supply for aircraft engines and aero structures from FY2004.

Financial flexibility arising from being a part of Raymond Group – Raymond is a diversified group with major business interests in textile and apparel sectors and has presence across varying segments such as consumer care, realty and engineering in national and international markets. Thus, the company enjoys strong financial flexibility for being a part of the Raymond Group.

Reputed client profile with established relationships and healthy order book – The company has developed strong relationships with its key customers across the aerospace and automotive industries. MPPL's customer profile consists of reputed Tier-1 players and OEMs such as Bosch, Eaton, Magneti Marelli, Volvo, Safran and Marshall Aerospace, among others. The company has relationship of more than a decade with majority of its customers. The company had a healthy order book of more than Rs. 1,020 crore as of June 2024, which is expected to be executed over the near term, lending revenue visibility. The company's revenue is supported by improving orders from existing customers and addition of new customers.

Improvement in debt metrics – The company's debt remains a mix of term debt and working capital debt. The company's total debt (excluding CCPS) increased marginally to Rs. 325.2 crore as of March 31, 2024 against Rs. 321.8 crore as of March 31, 2023. This was mainly on account of additional term debt taken for the ongoing expansion capex and higher working capital debt, in line with increasing scale of operations. Despite this marginal increase in debt, TD (excluding CCPS)/OPBIDTA improved to 2.6 times in FY2024 compared to 3.4 times in FY2023, supported by higher accruals on the back of improved scale of operations and operating margin. Further, Interest coverage ratio and DSCR of the company improved to 4.9 times and 1.8 times (adjusted for the current portion of CCPS), respectively in FY2024 from 4.1 times and 1.4 times, respectively in FY2023. The company is expected to incur capex of Rs. 55-60 crore, which includes expansion and maintenance and the same is expected to be funded through term debt of Rs. 29 crore and the rest from the internal accruals. Going forward, despite the ongoing debt-funded capex, the debt metrics of the company are expected to improve, supported by healthy accruals and scheduled repayment of term debt. However, timely completion and ramp-up of ongoing capex and its impact on debt metrics of the company would be monitored.

Credit challenges

High working capital intensity– The company's net working capital intensity (NWC/operating income) reduced to 38.7% in FY2024 from 44.4% in FY2024 owing to optimisation of inventory and debtor management, reducing the inventory days and debtor days to 125 and 84 days, respectively in FY2024 from 137 and 98 days, respectively in FY2023. That said, working capital intensity continues to remain high. This is because of higher share of revenues from exports in addition to maintaining sufficient inventory levels at its warehouses to ensure uninterred supplies to its customers. Going forward, the working capital intensity is expected to remain in line with the past trends.

Moderate core RoCE levels – The company had undertaken substantial capital expenditure between FY2018 and FY2020 to enhance its capacities. However, returns on the same have been deferred due to the Covid-19 pandemic-induced lockdowns, cyclicality in the automotive segment and decline in aerospace revenues in FY2021, leading to moderate core RoCE levels (6.4% in FY2022 and 9.3% in FY2023). While ICRA notes the growth in scale of operations and a gradual increase in the profit margins led to an improvement in core ROCE to 13.6% in FY2024, sustenance of the same remains monitorable.

Vulnerability of margins to foreign exchange rate fluctuations – With exports contributing 65-70% to the company's revenues, MPPL's profitability is susceptible to exchange rate fluctuations. The company is exposed to the volatility in the US dollar, euro, Swedish krona, Canadian dollar and British pound. However, the company is a net exporter, and has an active hedging policy of covering one-third of its net open exposure, which has aided it to generate healthy foreign exchange gains over the past few years and mitigates the risk to a certain extent. The forex gains amounted to Rs. 11.4 crore in FY2024.

Exposed to cyclicality in automotive industry and moderate customer concentration risk – In FY2024, MPPL derived ~68% of its revenues from the automotive segment and ~32% from the aerospace segment, exposing its revenues to the cyclicality in demand from these segments. While the company has a wide base of customers, it is exposed to moderate customer concentration as it derived ~53% of its revenues from the top five customers in FY2024. That said, MPPL's well established relationships with major OEMs also partly mitigate this risk.

Liquidity position: Adequate

MPPL's liquidity position remains adequate, with free cash and liquid investments of ~Rs. 16 crore and undrawn working capital limits of Rs. 36.2 crore as on March 31, 2024. The average working capital utilisation for the company remained at ~73% of the sanctioned limits between April 2023 and March 2024. The company has repayment obligations of Rs. 22.8 crore, Rs. 18.8 crore and Rs. 8.9 crore in FY2025, FY2026 and FY2027, respectively, for its existing debt. The company is expected to incur capex of Rs.55-60 crore, which includes expansion and maintenance capex, and the same is expected to be funded through term debt of ~Rs.29 crore while the rest will be funded through internal accruals. Despite this debt-funded capex, ICRA expects MPPL's liquidity position to remain adequate on the back of its healthy accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if there is any substantial growth in revenue and profitability, better working capital management, and improvement in capitalisation and coverage indicators. A specific credit metric for an upgrade is if Total debt /OPBDITA is less than 1.8 times, on a sustained basis.

Negative factors – The company's ratings could be downgraded, if there is substantial reduction in cash accruals, or if any major capital expenditure, or inability to improve its working capital cycle weakens liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken standalone financial statement of MPPL

About the company

MPPL, incorporated in 1973 by Late Dr. S.K. Maini, is handled by second generation promoters at present. MPPL is a process capability company with a focus on precision machining and related processes like heat treatment, sheet metal work, forming etc. It mainly supplies machined components to the automotive and aerospace industries. It has 11 plants in Bengaluru and its facilities are approved by large auto and aerospace customers. MPPL operates as a Tier-2 supplier for most of its customers. Its manufactured products are mainly used in engines (fuel injection, cylinder, cylinder head, crank-shaft assembly, power train, etc).

Key financial indicators (audited)

MPPL Standalone	FY2023	FY2024
Operating income	748.1	911.1
PAT	108.2	60.5
OPBDIT/OI	12.7%	13.5%
PAT/OI	14.5%	6.6%
Total outside liabilities/Tangible net worth (times)	10.1	1.8
Total debt/OPBDIT (times)	5.3	2.6
Interest coverage (times)	4.1	4.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)			Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based - Term Loan	Long-term	44.50	Aug 19, 2024	[ICRA]A; Rating Watch with Developing Implications	Nov 15, 2023	[ICRA]A-; Rating Watch with Developing Implications	Feb 13, 2023	[ICRA]A-(Stable)	Dec 07, 2021	[ICRA]A-(Stable)
Fund based/Non fund based – Working Capital – Others	Long-term/ Short-term	241.00	Aug 19, 2024	[ICRA]A; Rating Watch with Developing Implications/ [ICRA]A2+; Rating Watch with Developing Implications	Nov 15, 2023	[ICRA]A-; Rating Watch with Developing Implications/ [ICRA]A2+; Rating Watch with Developing Implications	Feb 13, 2023	[ICRA]A-(Stable)/ [ICRA]A2+	Dec 07, 2021	[ICRA]A-(Stable)/ [ICRA]A2+
Unallocated Limits	Long-term/ Short-term	29.50	Aug 19, 2024	[ICRA]A; Rating Watch with Developing Implications/ [ICRA]A2+; Rating Watch with Developing Implications	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term Loan	Simple
Long term / Short term – Fund based/non-fund-based – Working capital – Others	Very Simple
Long term / Short term – Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term – Fund based - Term Loan**	FY2018/FY2022	~8-8.25%	FY2026	44.50	[ICRA]A; Rating Watch with Developing Implications
NA	**Long term / Short term – Fund based/non-fund-based – Working capital – Others**	NA	NA	NA	241.00	[ICRA]A; Rating Watch with Developing Implications/ [ICRA]A2+; Rating Watch with Developing Implications
NA	**Long term / Short term – Unallocated Limits**	NA	NA	NA	29.50	[ICRA]A; Rating Watch with Developing Implications/ [ICRA]A2+; Rating Watch with Developing Implications

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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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