

Rating Rationale

November 25, 2020 | Mumbai

MMP Industries Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.43 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB+/Stable/CRISIL A2' ratings on the bank facilities of MMP Industries Ltd (MMP).

The ratings continue to reflect an established position in the aluminium powder products industry and established clientele, aided by the extensive experience of the promoters. The ratings also factor in a healthy financial risk profile. These strengths are partially offset by vulnerability to volatility in raw material prices and working capital-intensive operations.

The lockdown and other measures taken by the central and state governments to contain the spread of the COVID-19 pandemic, coupled with an already sluggish demand scenario, should result in revenue and profitability remaining lower than CRISIL's earlier expectation in fiscal 2021. Company has achieved revenue of Rs 87 crores in the first 6 months of fiscal 2021, as against Rs 119 crores during H1 fiscal 2020, while maintaining its operating profitability. However, the overall credit risk profile will remain supported by the healthy financial risk profile, particularly comfortable liquidity.

Key Rating Drivers & Detailed Description**Strengths:**

* **Extensive experience of the promoters:** The promoters have been in the aluminium powder industry for more than 30 years. Mr Arun Bhandari, the main promoter, is a chemical engineer and has worked in the industry in various roles, gaining significant technical expertise and capability. Over the years, the promoters have updated technology through continuous research and development, and leveraged this to build a strong clientele.

* **Healthy financial risk profile:** The financial risk profile is supported by a healthy networth of Rs 178 crore and a low gearing of 0.13 time as on March 31, 2020. Debt protection metrics were healthy, as indicated by interest coverage and net cash accrual to total debt ratios of 13.1 times and 0.98 time, respectively, in fiscal 2020.

Weaknesses:

* **Vulnerability to volatility in raw material prices:** Prices of raw materials such as aluminium ingots and foils, the cost of which accounts for 70-75% of sales, are volatile and governed by demand-supply dynamics. The company may be able to pass on increase in input prices albeit with a time lag, leading to volatility in operating margin.

* **Working capital-intensive operations:** Gross current assets were at 138 days as on March 31, 2020, driven by receivables of 67 days, inventory of 60 days, and no open credit available from suppliers.

Liquidity Adequate

Net cash accrual was healthy at Rs 22.3 crore, comfortably covering term debt obligation of Rs 2.5 crore, in fiscal 2020. Cash accrual is expected at Rs 15-20 crore per fiscal, against no long term debt obligation, over the medium term. Bank limit utilisation averaged 37% during the 12 months through September 2020. The unencumbered cash and bank balance was about Rs 10 crore as on 30th September 2020. Internal cash accrual, cash and cash equivalents, and unutilised bank lines should be sufficient to meet capex and incremental working capital requirements over the medium term.

Outlook: Stable

CRISIL believes MMP will continue to benefit from its established industry presence and the extensive experience of the promoters.

Rating Sensitivity factors**Upward factors:**

- * Net cash accrual sustaining above Rs 25 crore per fiscal, supported by significant and sustained growth in revenue and a stable operating margin
- * Sharp and sustained improvement in the working capital cycle

Downward factors:

- * Sharper than expected decline in revenue or drop in operating margin, resulting in net cash accrual dropping below Rs 12 crore
- * An increase in working capital requirement; larger-than-expected, debt-funded capital expenditure (capex) or acquisition; or more-than-expected dividend pay-out; weakening the financial risk profile, particularly liquidity.

About the Company

Incorporated in 1984 and based in Nagpur, Maharashtra, MMP is promoted by Mr Arun Bhandari and his father-in-law, Mr P M Lodha. The company manufactures aluminium-based products such as pyro and flake aluminium powder, atomised aluminium

powder, aluminium paste, and aluminium conductors.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	241.98	260.78
Profit after tax (PAT)	Rs crore	19.21	16.81
PAT margin	%	7.94	6.45
Adjusted debt/adjusted networkth	Times	0.13	0.23
Interest coverage	Times	13.11	11.92

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bill Discounting	NA	NA	NA	3	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	29	NA	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	8	NA	CRISIL A2
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	3	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	35.00	CRISIL BBB+/Stable/ CRISIL A2			26-09-19	CRISIL BBB+/Stable/ CRISIL A2	29-09-18	CRISIL BBB+/Stable/ CRISIL A2	12-09-17	CRISIL BBB+/Stable/ CRISIL A3+	CRISIL BBB-/Positive/ CRISIL A3
Non Fund-based Bank Facilities	LT/ST	8.00	CRISIL A2			26-09-19	CRISIL A2	29-09-18	CRISIL A2	12-09-17	CRISIL A3+	CRISIL A3

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bill Discounting	3	CRISIL A2	Bill Discounting	3	CRISIL A2
Cash Credit	29	CRISIL BBB+/Stable	Cash Credit	29	CRISIL BBB+/Stable
Letter of Credit	8	CRISIL A2	Letter of Credit	8	CRISIL A2
Proposed Fund-Based Bank Limits	3	CRISIL BBB+/Stable	Proposed Fund-Based Bank Limits	3	CRISIL BBB+/Stable
Total	43	--	Total	43	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

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