

Rating Rationale

January 05, 2024 | Mumbai

MMP Industries Limited

Ratings reaffirmed at 'CRISIL BBB+/Stable/CRISIL A2'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.80 Crore (Enhanced from Rs.43 Crore)
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings.

The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

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

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

Analytical approach

Unsecured loan of Rs 0.30 crore provided by the promoters and their family members as on March 31, 2023, has been treated as debt, as the loan is expected to be repaid over the medium term

Key rating drivers & detailed description

Strengths:

- **Extensive experience of the promoters:** The promoters have been engaged in the aluminium powder products industry for over three decades. Mr Arun Bhandari, the main promoter, is a chemical engineer and has gained significant technical expertise and capabilities. Over the years, the promoters have upgraded technology through continuous research and development and leveraged this to build a strong clientele. The company reported an operating income of Rs 535.41 crore in fiscal 2023 and Rs 277.50 crore in the first six months of fiscal 2024 with performance being supported by higher realisations on account of rising aluminum prices.
- **Healthy financial risk profile:** Capital structure is marked by a healthy networth and low total outside liabilities to adjusted networth of Rs 232.48 crore and less than 0.43 time, respectively, as on March 31, 2023. Debt protection metrics are also comfortable as marked by interest coverage ratio of over 7.5 times and net cash accrual to adjusted debt of over 0.35 time in fiscal 2023. The financial risk profile should remain strong over the medium term, in the absence of any additional debt-funded capital expenditure (capex) other than the estimated capex.

Weaknesses:

- **Vulnerability to volatility in raw material prices:** Prices of raw material such as aluminum ingots and foils, the cost of which accounts for 75-80% of sales, are volatile and governed by demand-supply dynamics. The company's realisations (operating margin per MT) came down in fiscal 2023, due to volatility in aluminum prices in the last two years. Steep decline in raw material prices led to an inventory loss. The company reported an operating margin of 7.13% for the first half of fiscal 2024. The margin is likely to remain stable amidst volatility in raw material prices, and new product manufacturing in place, for which the company is selling products at competitive prices to gain market share.
- **Working capital-intensive operations:** Although on an improving trend, gross current assets (GCAs) were moderate around 92 days as on March 31, 2023, against 110 days, a year before. While receivables were low at 31 days, inventory remains high at 63 days. Working capital requirement is met via bank debt and payables, which were around 15 days as on March 31, 2023. GCAs are expected to range from 100 to 115 days over the medium term.

Liquidity: Adequate

Liquidity is marked by sufficient cash accrual and moderate bank limit utilisation. Expected cash accrual of Rs 25-36 crore should comfortably cover the debt obligation of Rs 2-3 crore in the medium term. Bank limit utilisation averaged around 67.55% for the 12 months ended November 30, 2023. Current ratio was healthy at 1.7 times as on March 31, 2023. Low gearing and moderate networth offer financial cushion in case of any adverse conditions or downturn in the business.

Outlook: Stable

CRISIL Ratings believes the business risk profile of MMP will continue to benefit from its established market position and extensive experience of the promoters in the aluminium products industry.

Rating sensitivity factors**Upward factors:**

- Sustained growth in revenue, backed by volumetric rise, and operating margin of above 9%, resulting in higher-than-expected cash accrual.
- Efficient working capital cycle with improvement in GCAs.

Downward factors:

- Drop in volumetric sales leading to decline in revenue or operating margin, and resulting in net cash accrual of less than Rs 18 crore.
- Increase in working capital requirement, any major debt-funded capex, weakening the financial risk profile, particularly liquidity.

About the company

MMP was incorporated in 1984, by the promoters, Mr Arun Bhandari and his father-in-law, Mr P M Lodha. The Nagpur (Maharashtra)-based company manufactures aluminum-based products such as pyro and flake aluminum powder, atomised aluminum powder, aluminum paste, and aluminum conductors.

Key financial indicators

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	538.29	448.26
Reported profit after tax	Rs crore	21.05	25.94
PAT margin	%	3.42	5.43
Adjusted debt/Adjusted networth	Times	0.25	0.28
Interest coverage	Times	7.90	11.55

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' 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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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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	6	NA	CRISIL A2
NA	Cash credit	NA	NA	NA	54	NA	CRISIL BBB+/Stable
NA	Letter Of Credit	NA	NA	NA	8	NA	CRISIL A2
NA	Working capital demand loan	NA	NA	NA	12	NA	CRISIL A2

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	72.0	CRISIL BBB+/Stable/CRISIL A2		--	11-05-23	CRISIL BBB+/Stable/CRISIL A2	24-02-22	CRISIL BBB+/Stable/CRISIL A2	28-12-21	CRISIL A2/Watch Developing/CRISIL BBB+/Watch Developing	CRISIL BBB+/Stable/CRISIL A2
Non-Fund Based Facilities	ST	8.0	CRISIL A2		--	11-05-23	CRISIL A2	24-02-22	CRISIL A2	28-12-21	CRISIL A2/Watch Developing	CRISIL A2

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bill Discounting	3	Axis Bank Limited	CRISIL A2
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Cash Credit	12	Axis Bank Limited	CRISIL BBB+/Stable
Cash Credit	10	ICICI Bank Limited	CRISIL BBB+/Stable
Cash Credit	24.5	Axis Bank Limited	CRISIL BBB+/Stable
Cash Credit	7.5	ICICI Bank Limited	CRISIL BBB+/Stable
Letter of Credit	8	Axis Bank Limited	CRISIL A2
Working Capital Demand Loan	12	Citi Bank	CRISIL A2

Criteria Details**Links to related criteria**

[CRISILs Approach to Financial Ratios](#)

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

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

[CRISILs Criteria for rating short term debt](#)

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