



Press Release

Mittal Pigments Private Limited

December 4, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	35.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
2	Short Term Bank Facilities	18.00	IVR A4+ (IVR A Four Plus)	Assigned
	Total	53.00 (Rupee Fifty Three crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Mittal Pigments Private Limited (MPPL) considers the common management team and operational & financial linkages between MPPL and its parent company Jammu Pigments Ltd (JPL). Infomerics has taken a consolidated view of these entities. The rating assigned to the bank facilities of Mittal Pigments Private Limited (MPPL) also derives strength from extensive experience of its promoter, diversified customer base, continuous improvement in non-trading revenue and synergy benefit emanating from its parent company. The ratings also note MPPL's moderate financial risk profile. However, these rating strengths remain constrained due to its thin profit margins, intense competition and susceptibility of its profitability to volatility in raw material prices and exchange rates.

Key Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors:



Press Release

- Decline in operating income and/or profitability impacting the debt coverage indicators marked by interest coverage ration moderated below 1.2x
- Withdrawal of subordinated unsecured loan aggregating to Rs.6.07 crore and/or deterioration in the capital structure and debt protection metrics
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoter**

MPPL's overall operations are managed by Mr. Ramesh Agarwal, having industry experience of more than three decades. Long presence of the promoters in the industry has helped the company in developing longstanding relationship with its suppliers and customers.

- **Continuous improvement in non-trading revenue**

MPPL has reported healthy Compounded Annual Growth Rate (CAGR) of ~14% in its non-trading revenue over FY18-FY20. During FY20, the company's non-trading revenue improved by ~7% on y-o-y basis to ~Rs.377 crore supported by increased sales volume on the back of healthy demand. On a consolidated basis, total operating income has increased at a CAGR of ~15% over FY18-FY20.

- **Diversified customer base**

The company has diversified customer base, which mitigates business risks. Top ten customers contributed to ~39% of the total sales in FY20.

- **Synergy benefit from parent company**

Jammu Pigments Ltd (JPL) owns majority stake of 63.58% in MPPL as on March 31, 2020. JPL is engaged in the same line of business i.e. manufacturing of lead and zinc products like lead ingot, lead alloys, zinc oxide as well as trading of metals and chemicals. Manufacturing units of JPL are located at Dariba (Rajasthan) and Kathua (Jammu & Kashmir). Presence of group company imparts synergy benefit for MPPL and supports its business risk profile to an extent.

- **Moderate financial risk profile**

During FY20, on a consolidated basis total debt has increased considerably mainly due to increase in working capital bank borrowing and unsecured loan for making early payment to



Press Release

its suppliers to avail cash discounts. Increase in total debt during FY20 has impacted the leverage ratios to an extent. However, the financial risk profile remained moderate with a long term debt equity and overall gearing ratio at 0.43x and 1.25x respectively as on March 31, 2020 (Provisional). The unsecured loans from promoters/related parties aggregating to Rs.6.07 crore will remain in MPPL till currency of the bank loan (undertaking received from the company) and the same has been considered as quasi-equity. The total indebtedness as reflected by the TOL/TNW remained comfortable at 1.95x as on March 31, 2020 (provisional). Further, the interest coverage ratio stood at 2.42x in FY20.

Key Rating Weakness:

- **Thin profit margins**

On a standalone basis, MPPL's total operating income increased considerably in FY19 by ~33% to ~Rs. 436 crore driven by increase in sales volume of lead & zinc products including vanadium concentrate. Apart from this, TOI growth in FY19 was also attributed to increase in trading revenue from Rs. 29.93 crore in FY18 to Rs.91.99 crore in FY19. However, total operating income was impacted in FY20 due to lower trading revenue. The company's operating margins remained thin in the range of 1.4-1.6% in the past and stood at 1.54% in FY20 inherent to the low value added nature of the business. On a consolidated basis, operating margins remained in the range of 3-3.9% over FY18-FY20. Going forward, the margins are expected to remain in the same range. During 7MFY21, consolidated revenue stood at ~Rs.279 crore.

- **Exposure of margins to volatility in raw material prices and exchange rates**

The company's margins are susceptible to fluctuations in raw material prices such as lead scrap, zinc dross etc. Apart from this, MPPL's import of raw materials exposes the company to foreign exchange fluctuation risk. However, the risk is mitigated to some extent by way of natural hedge as the company also exports the finished products. The company also uses forward cover to hedge its foreign exchange exposure.

- **Intense competition**

The company operates in a fragmented and unorganized industry with presence of large number of small sized unorganised players as the industry is characterized by low entry barriers. Intense industry competition coupled with limited value addition of the product limits the company's pricing flexibility and bargaining power.



Press Release

Analytical Approach: Consolidated

For arriving at the rating, INFOMERICS has considered the consolidated approach as MPPL and JPL (Parent company of MPPL) are running under a common management with strong operational and financial linkages. Details of entities consolidated are given in **Annexure 2**.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

On consolidated basis, liquidity position has remained adequate with current ratio of 1.45 times as on March 31, 2020. Moreover, its expected gross cash accruals are in the range of ~Rs.15-19 crore vis-à-vis its debt repayment obligations of Rs.3-7 crore during FY21-23. However, on standalone basis, MPPL's liquidity may remain constrained due to increase in its working capital requirements driven by reduction in average payable days. MPPL used a mix of unsecured loan, Channel finance and PO discounting to meet its high working capital requirements. Besides, working capital limits average utilisation stood at ~ 89% in the twelve months ended August 2020 indicating a moderate liquidity buffer.

About the Company

Incorporated in April 1991, Mittal Pigments Private Limited (MPPL) is part of Mittal group and is promoted by Mr. Ramesh Kumar Agarwal. The company is primarily engaged in the manufacturing of lead and zinc products like lead ingot, lead alloys, zinc oxide etc Its manufacturing unit is located at Indraprastha Industrial Area, Kota, Rajasthan.

Financials: Consolidated

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	733.06	829.34
EBITDA	23.52	25.54
PAT	7.15	8.03
Total Debt	77.75	135.10
Adjusted Net worth	99.55	107.70



Press Release

For the year ended* / As On	31-03-2019	31-03-2020
EBITDA Margin (%)	3.21	3.08
PAT Margin (%)	0.97	0.97
Overall Gearing Ratio (x)	0.78	1.25

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork Ratings in its press release dated September 14, 2020 has placed the rating of Mittal Pigments Private Limited under Issuer Not Cooperating category due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	20.00	IVR BB+/ Stable	-	-	-
2.	SLC/WCDL/ DL-CCECL	Long Term	5.00	IVR BB+/ Stable	-	-	-
3.	Channel Finance	Long Term	5.00	IVR BB+/ Stable	-	-	-
4.	Proposed	Long Term	5.00	IVR BB+/ Stable	-	-	-
5.	LC/FLC	Short Term	10.00	IVR A4+	-	-	-
6.	PO- Short term working capital loan	Short Term	8.00	IVR A4+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:



Press Release

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating / Outlook
Cash Credit	-	-	-	20.00	IVR BB+/ Stable
SLC/WCDL/ DL-CCECL	-	-	-	5.00	IVR BB+/ Stable
Channel Finance	-	-	-	5.00	IVR BB+/ Stable
Proposed	-	-	-	5.00	IVR BB+/ Stable
LC/FLC	-	-	-	10.00	IVR A4+
PO- Short term working capital loan	-	-	-	8.00	IVR A4+
Total				53.00	



Press Release

Annexure 2: List of companies considered for consolidated analysis

Name of the Company	Consolidation Approach
Jammu Pigments Limited	Full consolidation

