Micron Precision Screws Limited

November 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	28.52	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	17.43	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Revised from CARE A4+ (A Four Plus) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**45.95 (Rs. Forty-Five Crore and Ninety-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

CARE has been seeking information from Micron Precision Screws Limited to monitor the rating vide e-mail communications dated November 1, 2021, November 3, 2021, November 4, 2021, November 9, 2021, and numerous phone calls etc., However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating based on the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Micron Precision Screws Limited now be denoted as CARE BB- Stable/CARE A4; ISSUER NOT COOPERATING.*

Users of this rating (including investors, lenders, and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been revised by considering non-availability of requisite information and no due diligence conducted with banker due to non-cooperation by Micron Precision Screws Limited with CARE'S efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest and fluctuating scale of operations: *Inspite of being in operations for the last four decades, the scale of operations of MPSL has remained modest & fluctuating in the FY17-FY20 period and stood at Rs. 77.28 cr. in FY20 (Prov.). The company achieved a total operating income of Rs.26.80 cr. in 5MFY21 (Prov.), which declined by ~18% on a year-onyear (y-o-y) basis from Rs. 32.71 cr. achieved in 5MFY20 (Prov.) on account of lower demand from its customers, especially owing to Covid-19 pandemic.*

Fluctuating profitability margins: *The PBILDT margins of the company have remained fluctuating in the past and remained vulnerable to fluctuations in raw material prices and foreign exchange currency. The margins declined in the FY17-FY19 period (from 8.43% in FY17 to 6.77% in FY19), however the same improved in FY20 (Prov.) to 7.76%. Consequently, the PAT margins have also remained fluctuating in FY17-FY20 period with continuous decline in FY17-FY19 period and improvement in FY20 (Prov.).*

Susceptibility of margins to fluctuations in raw material prices, foreign exchange risk and highly competitive and fragmented nature of industry: *The operations of MPSL are raw material intensive in nature with the material cost constituting ~59% of total operating income on an average for the last four years. The prices of the key raw materials are fluctuating in nature as they depend on demand and supply scenario and the price variation is at times passed with time lag on to the customers due to competitive nature of the market. This exposes the margins to any adverse movement in the raw material prices. The industry is highly fragmented with a large number of small and unorganized players catering to the demand of the customers which further intensifies the competition. MPSL derived ~11% of its total operating income in FY20 (Prov.) from exports (PY: ~11%) and the raw material is also imported from China [constituting ~1% of its total raw material purchased in FY20 (Prov.); (PY: 8%)], thereby exposing the company to risks associated with adverse fluctuations in the foreign currency. However, the forex risk is mitigated to some extent as company books forward contracts thereby providing hedge against adverse currency movements.*

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Inherent cyclicality of the auto component industry: *The products manufactured by the company find applications in the automobile sector which is cyclical in nature. The company derives its income from the tractor segment [~40% of total operating income in FY20 (Prov.)], construction equipment segment (~30%) and remaining (~30%) from two wheeler segment, agriculture implements (rotary tiller) and replacement market. The demand for this industry is susceptible to changes in the economic climate. A fall in the level of economic activity can dissuade the customers, thereby impacting the sales of the automotive industry as the automobile manufacturers may limit the production levels. The automobiles sector was already grappling with soft consumer demand in FY20. With outbreak of Covid-19 pandemic, economic activities across the country remain disrupted since March 2020 due to lockdown. The pandemic caused disruptions in supply chains and brought manufacturing activity to a halt for nearly 30 days. Due to the multiple lockdowns, various OEMs, ancillaries and dealers located in containment zones, witnessed near nil activity in April and few days of May 2020. The overall economic uncertainty with macro-economic headwinds and constrained financing environment may translate into weak consumer sentiment and result in contraction in demand for OEMs.*

Key Rating Strengths

Experienced promoters and long track record of operations: *MPSL was incorporated in 1988 by Mr. Romesh Vig who is the Managing Director of the company. Mr. Romesh Vig is having an experience of more than four decades in the fasteners industry and looks after the manufacturing operations of the company. He is assisted by other directors- Mrs. Poonam Vig (W/o Mr. Romesh Vig) who has four decades of experience and looks after finance operations; Mr. Karan Vig (S/o Mr. Romesh Vig) is having an experience of more than two decades in the industry and looks after the marketing operations; Ms. Nipun Chhabra (D/o Mr. Romesh Vig) has an experience of around three decades in the industry and looks after the overall operations of Delhi office of the company; Ms. Nidhima Vig (W/o Mr. Karan Vig) has an experience of ~3 years in the industry and looks after export operations of the company. The directors of the company are assisted by a team of professionals who are highly experienced in their respective domains.*

Established business relationship with reputed customers; albeit, customer concentration risk: *MPSL supplies its products to various reputed players in automobile sector who enjoy strong market position. The major customers include JCB India Limited, Escorts Limited, Mahindra & Mahindra (CARE AAA; Stable/ CARE A1+), CNH Industrial Private Limited, Lohia Corporation Limited, Case New Holland Construction Equipment Private Limited, SIAC India CAB India Private Limited, Steel Strips Wheels Limited, Blue Stamping & Forgings Limited etc. However, the revenue steam of MPSL remains concentrated with top-3 customers constituting ~35% of total income in FY20 (Prov.) [PY: 46%]. The top customer- JCB India Limited, contributed ~14% of total income in FY20 (Prov.). Any significant deterioration in the performance of these clients is expected to have an impact on the financial profile of MPSL. However, MPS has been associated with these customers from a period ranging between 6-32 years and has been able to receive repetitive orders from them. Satisfactory overall solvency position: The capital structure of the company has remained satisfactory with debt to equity and overall gearing ratios of 0.25x and 1.23x, respectively as on March 31, 2020 (Prov.). The debt coverage indicators of the company have also remained satisfactory with interest coverage ratio of 2.02x in FY20 (Prov.) and total debt to GCA ratio of 10.70x, as on March 31, 2020 (Prov.).*

Liquidity: Adequate- *The current ratio and quick ratio of MPSL stood satisfactory at 1.22x and 0.77x, respectively, as on March 31, 2020. The company has ~Rs. 6.47 cr. in the form of unencumbered term deposits, as on August 31, 2020. The company has total debt repayment obligation of Rs.1.63 Cr. in FY21 proposed to be met through internal accruals. The operating cycle of the company stood elongated at ~90 days, as on March 31, 2020 (Prov.), while the average cash credit limit utilization remained at ~92% for the 12-month period ended June-2020.The company has availed the moratorium offered by Reserve Bank of India (RBI) in light of Covid-19 for its debt obligation due in the period April-August-2020. The company has also availed covid loan amounting to Rs. 3 cr. (sanctioned) in August 2020. The repayment of the loan is expected to commence from September-2021. MPSL is incurring a de-bottlenecking project in FY20-FY21 period at a total cost of Rs. 7 cr. funded through term loans of Rs. 5 cr. (sanctioned) and remaining through internal accruals and unsecured loans infused from promoters. Of this, the company had already incurred a total project cost of Rs. 3.50 cr. funded through a term loan of Rs. 2.52 cr. and remaining through internal accruals in FY20 while the remaining cost (Rs. 3.5 cr.) would be incurred in FY21 to be funded through term loan of Rs. 2.48 cr. and remaining through internal accruals and unsecured loans from promoters.*

Analytical approach*: Standalone*

Applicable Criteria

Auto Ancillary Companies
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies
Policy in respect of Non-cooperation by issuer
Policy on default recognition

Auto Ancillary Companies
Financial Ratios – Non financial Sector
Rating Outlook and Credit Watch
Short Term Instruments

About the Company

Micron Precision Screws Limited (MPSL) *was established as a proprietorship firm in 1979 by the name of Micron Precision Industries by Mr. Romesh Vig. Subsequently, the firm was reconstituted as a public limited company in 1988 and the name was changed to MPSL, with Mr. Romesh Vig as the Managing Director of the company. The company is engaged in the manufacturing of auto components for Original Equipment Manufacturers (OEM's) and tier-1 suppliers engaged in tractor segment, construction equipment segment, two-wheeler segment. The company also supplies in replacement market and manufactures agriculture implements (rotary tiller; since 2015) which are sold to dealers located in the state of Punjab, Haryana, and Madhya Pradesh. In addition to catering to the domestic market, MPSL is also engaged in exports (~11% of total income in FY20) and supplies to dealers located in Germany, United Kingdom, France, United States, and Italy. The product profile of the company includes fasteners (of varied sizes both standard and specials with diameters ranging from M4 to M40 mm in inches) i.e., nuts, bolts, screws, pins and blades with installed manufacturing capacity of 9000 metric tonnes per annum (MTPA) as on March 31, 2020, at its sole manufacturing facility located at Rohtak, Haryana. The related party of the company is Micron Specma (India) Private Limited [MSIPL]. It was established in 2017 and is engaged in the manufacturing of hydraulic adopter. MSIPL is a joint venture with Hydraspecma Samwon Limited (having shareholding of ~25% in MSIPL) based in United Kingdom. Hydraspecma Samwon Limited purchases hydraulic adopters from MSIPL and supplies it to JCB Limited.*

(Rs. Crore)

Brief Financials (Rs. crore)	*FY19 (A)**	*FY20 (P)**
Total operating income	87.93	77.28
PBILDT	5.96	6.00
PAT	0.98	1.33
Overall gearing (times)	1.20	1.23
Interest coverage (times)	1.60	2.02

A: Audited P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	October-2026	6.02	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	22.50	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	15.00	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Forward Contract		-	-	-	0.75	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST-Bills discounting/ Bills purchasing		-	-	-	1.68	CARE A4; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	6.02	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (11-Sep-20)	-	-
2	Fund-based - LT-Cash Credit	LT	22.50	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (11-Sep-20)	-	-
3	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (11-Sep-20)	-	-
4	Non-fund-based - ST-Forward Contract	ST	0.75	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (11-Sep-20)	-	-
5	Fund-based - ST-Bills discounting/ Bills purchasing	ST	1.68	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (11-Sep-20)	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company/firm

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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