

September 27, 2024

Fritzmeier Motherson Cabin Engineering Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	9.17	3.88	[ICRA]AA- (Stable); Upgraded from [ICRA]A+(Stable)
Long-term Fund-based – Cash Credit	15.00	15.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+(Stable)
Short-term – Interchangeable Limits	(6.00)	(6.00)	[ICRA]A1+; Upgraded from [ICRA]A1
Total	24.17	18.88	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade considers an improvement in the credit profile of the parent entity, Samvardhana Motherson International Limited (SAMIL), and the benefits emanating to Fritzmeier Motherson Cabin Engineering Private Limited (FMCEPL) on account of its association with the Samvardhana Motherson Group in the form of strong operational and financial support. FMCEPL became a wholly-owned subsidiary of SAMIL w.e.f. March 31, 2023, post-acquisition of the balance stake from Fritzmeier Holding GmbH (Fritzmeier; a part of the Fritzmeier Group, Germany). Aided by support from parent entities, the company has been able to develop technologically superior cabins with enhanced safety features, which supported the share of business with its customers, especially in terms of tightening safety and regulatory norms in India. Additionally, the association of Fritzmeier with major global Mining and Construction Equipment (MCE) original equipment manufacturers (OEMs) has also supported FMCEPL in gaining business from the former's Indian subsidiaries.

The ratings continue to factor in the expectation of healthy operational performance of FMCEPL, aided by its established position as a leading cabin manufacturer and strong relationships with customers. ICRA notes that the company has been actively involved in improving its business prospects and the scope of supplies for its existing products by introducing additional fabricated components. Even though the company's revenues remained flat in FY2024, led by weakness in demand in certain end-user markets, the operating profitability of the company remained healthy, with an OPM of 13.5% in FY2024. Going forward, the company has a healthy order pipeline, aided by business wins from several key customers, which is expected to further increase its operations and help the company generate healthy cash flows.

ICRA notes that the company has plans to expand the capacity of its existing plant, which is expected to entail a capex of Rs. 30-40 crore spread over the next two years. The company has been extended an inter corporate loan by its parent entity in the interim to help fund the capex, and the company is eventually expected to avail external debt to replace the interim loan. Despite the expected increase in external debt, the company's debt coverage metrics are expected to remain strong. However, a significant deterioration in profitability or a larger-than-expected debt-funded capex could impact the company's credit metrics and would remain a key monitorable.

The ratings remain constrained by FMCEPL's modest scale of operations with revenues of ~Rs. 185.3 crore in FY2024. Besides, its operations are limited to a niche product category, viz. supply of cabins for MCE and tractor industries.

The Stable outlook on the long-term rating reflects ICRA's opinion that FMCEPL's business prospects remain healthy over the near term, supported by expectation of healthy traction from key customers and underlying demand drivers of the MCE and tractor industries. Despite material capex plans in the near term, the company is likely to maintain a comfortable financial risk profile, going forward, aided by healthy cash flow generation.

Key rating drivers and their description

Credit strengths

Strong parentage of Samvardhana Motherson Group provides operational and financial support; Fritzmeier Holding GmbH continues to provide technical know-how – FMCEPL's association with the Samvardhana Motherson Group provides it with ample financial flexibility and operational support in the domestic market. The strong parentage of the company is likely to continue to aid its business prospects, going forward, and provides comfort. The company also benefits from its association with the Fritzmeier Group, which provides it with technological expertise, design and development capabilities as well as access to a global customer base of OEMs. Accordingly, FMCEPL's cabins are technologically superior to other similar products available in the domestic market and meet a high level of international safety requirements such as roll-over protective structures (ROPS) and fall-over protective structures (FOPS).

Established relationships with customers supported by collaboration with Fritzmeier, along with proven design and development capabilities – The parentage of Fritzmeier helped the company design technologically superior cabins that are comparable with global standards, which augurs well for its business development with global OEMs. FMCEPL has a diversified customer base and has developed strong relationships over the years with its customers, which are large established players in the global MCE and agricultural equipment industries, including the likes of Caterpillar, Komatsu, Mahindra and Mahindra Limited and John Deere. The customer concentration risks remain moderate for the company, given its limited dependence on each OEM (largest customer accounted for ~34% of revenues in FY2024). The company's share of business with its customers remains protected to a large extent because of established relationships with each of these OEMs and FMCEPL's proven design and development capabilities.

Diversified business profile across MCE and tractor industries – Through its presence across the MCE and tractor industries, FMCEPL's revenue profile is relatively diversified. The company generates 55-60% of its business from the MCE segment, while the balance comes from tractor OEMs. Additionally, it supplies to various product segments within the MCE industry, which find usage across multiple applications, including dump trucks, excavators and backhoe loaders. Besides, a healthy proportion of its supplies to the domestic clientele is earmarked for exports to markets such as Europe, North America and Southeast Asia, which offers further diversification to revenue streams and protects it from demand downturns in the domestic MCE and tractor markets. Overall, FMCEPL's revenues remain well diversified despite operating in highly cyclical industries.

Healthy business pipeline likely to support revenue growth over the medium term – The company is actively engaged in pursuing new businesses with its existing customers as well as in expanding its customer base. Besides expanding its scope of supplies with existing customers to include new models and products, the company has expanded its customer portfolio to include multiple new OEMs, such as Tata Hitachi, Preet Tractors, Doosan Bobcat, and Schwing Stetter, over the past few years. Going forward, the company has a healthy business pipeline, supported by business wins from several customers, which are likely to continue to support its revenue growth prospects.

Credit challenges

Modest scale of operations because of presence in a niche product category – FMCEPL is a relatively smaller player in the domestic auto-ancillary space, with revenues of only ~Rs. 185 crore in FY2024. This is primarily because its scope of operations is limited to a niche product category, viz. supply of cabins to the high-end CE and agricultural equipment. Nevertheless, the company witnessed a steady operating income during the last three years, aided by healthy traction from its key customers, M&M, Caterpillar, JD and Komatsu.

High working capital intensity owing to requirement of minimum order quantity for imported raw materials – The company maintains imported raw material stock for a few months because of high import content and minimum order quantity requirements for such components, which leads to an increase in the working capital intensity of operations. Nevertheless, increasing share of sales from customers, which seek 30-day credit vis-à-vis 45-50 days by some other customers, led to a

reduction in debtor days over the last two years. Additionally, an improvement in the scale of operations has also helped in stabilising the inventory holding period. Going forward, NWC/OI (%) is expected to remain moderate at 20-22%, aided by the company's efforts to better manage its working capital requirements and improvement in sales.

Liquidity position: Adequate

FMCEPL's liquidity position remains adequate, supported by comfortable cash flow from operations and availability of unutilised working capital limits (average buffer of Rs. 6.5 crore out of the sanctioned limit of Rs. 15 crore during the 12-month period ending in July 2024). In addition, SAMIL (parent entity) has extended an ICD of ~Rs. 20 crore to FMCEPL for interim funding of the capex plans. The company has debt repayments of ~Rs. 1.7 crore p.a. and capex plans of Rs. 10-15 crore in FY2025, which are expected to be primarily met from internal accruals and available lines of credit.

Rating sensitivities

Positive factors – ICRA could upgrade FMCEPL's long-term rating in case of a sustained increase in operations, supported by increasing share of business with key OEMs, while maintaining comfortable debt coverage indicators and liquidity position.

Negative factors – ICRA could downgrade FMCEPL's ratings in case of increased debt-funded capex, resulting in a deterioration in profitability and credit metrics with Total Debt/OPBITDA remaining above 2.3 times on a sustained basis. The ratings could also be downgraded in case of deterioration in the parent's (SAMIL) credit profile or weakening of linkages with the parent entity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Parent Company: Samvardhana Motherson International Limited (SAMIL) ICRA expects the parent company to be willing to extend financial support to FMCEPL, should there be a need, given the strategic importance that FMCEPL holds for it. FMCEPL also shares a common name with SAMIL, which in ICRA's opinion would persuade the parent company to provide financial support to FMCEPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 2007, Fritzmeier Motherson Cabin Engineering Private Limited (FMCEPL) is a leading manufacturer of operator cabins for off-highway vehicles like heavy duty dump-trucks, excavators, backhoe loaders, wheel loaders and agricultural tractor cabins. Its cabins meet high level of international safety requirements like roll-over protective structures (ROPS) and fall-over protective structures (FOPS). The company caters to established OEMs in the CE and agricultural equipment space such as Caterpillar, Komatsu, Kobelco, John Deere, Escorts, and Mahindra & Mahindra, both for their domestic as well as export requirements. The company's facility at Kancheepuram (near Chennai) has an installed production capacity of ~18,000 cabins per year as of March 31, 2024.

FMCEPL was set up as a 50:50 joint venture between Fritzmeier Holding GmbH (a Fritzmeier Group company) and Samvardhana Motherson International Limited (SAMIL, a Motherson Group company, now merged with MSSL). In FY2023, SAMIL acquired the remaining 50% stake of FMCEPL from Fritzmeier Holding GmbH. FMCEPL's board has equal representation from both the Fritzmeier Group and the Motherson Group, with founding members of both the Groups on the board.

Key financial indicators (audited)

FMCEPL	FY2023	FY2024
Operating income	190.0	185.3
PAT	13.6	13.4
OPBDIT/OI	14.8%	13.5%
PAT/OI	7.2%	7.2%
Total outside liabilities/Tangible net worth (times)	0.6	0.3
Total debt/OPBDIT (times)	0.7	0.2
Interest coverage (times)	10.2	10.0

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

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Sep 27, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	15.00	[ICRA]AA-(Stable)	Jun 15, 2023	[ICRA]A+(Stable)	-	-	Mar 23, 2022	[ICRA]A+(Stable)
Short term-others-interchangeable	Short Term	6.00	[ICRA]A1+	Jun 15, 2023	[ICRA]A1	-	-	Mar 23, 2022	[ICRA]A1
Long term-term loan-fund based	Long Term	3.88	[ICRA]AA-(Stable)	Jun 15, 2023	[ICRA]A+(Stable)	-	-	Mar 23, 2022	[ICRA]A+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	Simple
Short-term – Interchangeable Limits	Very Simple

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	Term Loan	Nov 2019	NA	Nov 2026	3.88	[ICRA]AA-(Stable)
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]AA-(Stable)
NA	Interchangeable Limits	NA	NA	NA	(6.00)	[ICRA]A1+

Source: Company

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

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