October 31, 2022 (Revised)

Munjal Auto Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based Term Loans	80.18	80.18	[ICRA]AA- (Stable); reaffirmed
Long-term: Fund-based Cash Credit	35.00	35.00	[ICRA]AA- (Stable); reaffirmed
Short-term: Fund-based Limits	18.00	18.00	[ICRA]A1+; reaffirmed
Short-term: Non-fund Based Limits	15.93	15.93	[ICRA]A1+; reaffirmed
Long/ Short-term: Unallocated	30.89	30.89	[ICRA]AA- (Stable)/ [ICRA] A1+; reaffirmed
Total Bank Limits	**180.00**	**180.00**	
Commercial Paper	**15.00**	**15.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

ICRA takes into consideration the consolidated financials of Munjal Auto Industries Limited (MAIL) and its subsidiary, Indutch Composites Technology Private Limited (ICTPL). The rating reaffirmation takes into consideration MAIL's stable business profile as characterised by its key supplier status for key exhaust system components, such as mufflers to Hero Moto Corp Limited (HMCL; rated [ICRA]AAA(Stable)/[ICRA]A1+) and ongoing ramp-up of ICTPL's operations supported by a strong order book. The ratings also draw comfort from the company's conservative capital structure and improvement in liquidity profile.

The rating, however, continues to be constrained by MAIL's exposure to a single client resulting in high revenue dependence on HMCL as well as the Indian two-wheeler (2W) industry. MAIL's acquisition of ICTPL, a windmill blade manufacturer for various renewable energy companies, will enable it to diversify its operations into the non-automotive sector. While the revenue from this business continues to scale-up, it is yet to contribute significantly to MAIL's consolidated earnings. Thus, going forward, the rating will remain dependent on MAIL's ability to profitably scale up its supplies to customers other than HMCL and reduce its dependence on a single customer. Further, MAIL's ability to diversify its product profile to reduce dependence on mufflers will gain greater prominence over the medium-term as 2W electric vehicles (EVs) are expected to become more popular, which would pose a threat to the company's muffler business. The rating is also constrained by the low value addition in muffler operations and weak industry demand as reflected by moderation in earnings in FY2022.

The Stable outlook on the long-term rating reflects ICRA's view that MAIL will continue to benefit from its extensive track record of operations, established relationship with HMCL and commitment to conservative financial policies. Moreover, ramp up in ICTPL's performance will benefit MAIL's scale and credit metrics, going forward.

Key rating drivers and their description

Credit strengths

Strong business position – MAIL is the largest supplier of mufflers to HMCL, which is the leader in the Indian 2W industry. The company's experience and expertise in manufacturing muffles along with its established relationship with HMCL is likely to help it to maintain a majority share of business with the OEM. MAIL has technical collaborations with Lafranconi Italy SPA for exhaust systems of 2Ws and with South Korea's Samsung Industries Ltd. for fuel tanks of passenger vehicles (PVs). Such technical collaborations have helped MAIL to not only maintain a healthy share of business with its customers but also to gain access to the latest technology to meet the changing industry requirements.

Steady revenue visibility over the medium term; healthy order book at subsidiary level – MAIL derived ~87% of its revenue from the 2W industry on a consolidated level in FY2022. While the domestic 2W industry is likely to grow at a modest pace in FY2023, expectations of healthy ramp-up of operations at ICTPL backed by a strong order book position would augment MAIL's consolidated revenues, going forward. Moreover, ICTPL has a healthy order book of Rs. 500-600 crore to be executed within FY2023, resulting from medium-to-long-term offtake agreements with its key clients such as Nordex, Enercon and Senvion India that will lead to healthy medium term revenue visibility. ICRA takes comfort from the strong commitment exhibited by ICTPL's clients who participate in capex and provide mobilisation/working capital advances apart from technical support; which is expected to support ICTPL's operational ramp up.

Improved liquidity profile and decline in external debt levels – MAIL witnessed a decline in external liabilities owing to scheduled term debt repayments in FY2022 and no additions resulting in improvement in gearing to comfortable levels of 0.3 time as on March 31, 2022. As a result, Total Debt/ OPBITDA also improved to 1.4 times despite moderation in OPBITDA in FY2022 owing to decline in muffler volumes. Going forward, debt levels will increase primarily owing to lease liabilities for ICTPL's leased facilities. The company's financial profile also remains supported by healthy surplus liquidity of Rs. 110 crore as on September 30, 2022, in the form of liquid investments and buffer in working capital limits.

Credit challenges

High dependence on single customer and single product segment; low value addition owing to assembly nature of standalone business led to weak return metrics – MAIL derives around 97% of its standalone revenues from the assembly of mufflers for its key client, HMCL. Due to the assembly nature of operations, the operating margins remain low. The contribution from new products segments and other OEMs remains negligible. Due to high dependence on HMCL, MAIL witnessed revenue decline of 14-15% in line with HMCL's 2W volume decline as well as decline in muffler realisations in FY2022. As a result, its return metrics, such as RoCE, remain modest in relation to the rating category. However, the key supplier status and HMCL's market leadership position mitigates the client concentration risk to some extent. In addition, ICTPL's scale up is likely to mitigate the client concentration risk and improve return metrics, going forward.

Threat of EV segment on mufflers as a product in the long run, company demonstrated diversification efforts – Since HMCL is mainly present in the motorcycles segment, HMCL's business would not see any major impact from electric 2Ws (e-2W) in the near term. However, in the medium to long-term, this segment would exert pressure on the traditional 2W business. MAIL has made efforts towards diversification by investing in the composites space through ICTPL. Further, ICTPL has a growth potential not just in the renewable energy space but also as a potential supplier of composite related parts to the EV segment.

Subsidiary's ability to demonstrate planned execution as committed to client with optimum quality remains critical, given presence of high penalty clauses – ICTPL's Enercon and Senvion facilities have commenced operations from March 2022 and August 2022, respectively. Across an expanded client base and capacity, the company's ability to deliver the desired quality and avoid penalties as the execution ramps up, is crucial. However, the company's track record of producing windmill blades at a large scale for global players, such as Nordex, as well as the presence of a strong parent, MAIL, provides comfort. In Q1 FY2023, ICTPL was able to book only Rs. 72-crore revenues owing to the time taken for client approvals and the prototyping phase in the recently commenced Enercon facility. However, revenue booking is expected to ramp up during the balance part of the fiscal.

Environmental and Social Risks

Environmental concerns: MAIL's key customer, HMCL, derives a material proportion of its demand from the rural segment; adverse climatic conditions such as droughts and floods may impact farm incomes and, consequently, rural demand for entry level 2Ws, affecting MAIL's revenues. To mitigate this risk, MAIL is trying to diversify its revenue streams and with the ramp-up of ICTPL, the dependence on HMCL would come down in terms of revenue share. As MAIL's revenues primarily emanate from exhaust systems or mufflers, the company remains exposed to climate transition risks from the likelihood of tightening emission control requirements. There is a track record of HMCL providing operational support to MAIL during its transition to BS-VI emission norms in FY2021. Also, the company does not have any pending show cause/ legal unresolved notices from the central or state pollution control boards as on March 31, 2022.

Social concerns: MAIL has a healthy dependence on human capital; thus, retaining human capital, maintaining healthy employee relationships as well as its supplier ecosystem remain essential for disruption free operations. The company has been re-certified for Occupation, Health and Safety (OHSAS) 1800:2007 from Bureau Veritas in FY2022, which is valid for up to May 01, 2025. As per the company's FY2022 annual report, the company has been progressing well in terms of reducing injury frequency rates and has improved its safety records. Another social risk that automotive component players such as MAIL face pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to financial implications but could also harm the company's reputation and create a more long-lasting adverse impact on demand. As on March 31, 2022, the reported warranty provisions was low at around Rs. 0.6 crore and does not pose any significant credit risk. The company also remains exposed to any major shift in consumer preferences/ demographics/ technology. In the 2W market, there is a growing traction in terms of development of e-2Ws, especially in the scooter segment. As the company has significant dependence on the muffler business, adoption of e2Ws could impact its business prospects in the long-term.

MAIL has made efforts towards diversification by investing in the composites space through ICTPL. ICTPL has a strong growth potential not just in the renewable energy space but also as a potential supplier to the EV segment, which can address the above concerns to an extent.

Liquidity position: Adequate

MAIL's has adequate liquidity supported by cash and liquid investments of Rs. 110 crore as on September 30, 2022, on a consolidated basis, improved from previous year levels, and unutilised working capital limits of Rs. 35-40 crore. Going forward, while the company has moderate repayment obligations (Rs. 18-25 crore per annum at a consolidated level), its cash accruals are expected to be sufficient to meet the same.

Rating sensitivities

Positive factors – A sustained improvement in the operational profile of the company through material diversification of its customers and products could trigger a rating upgrade.

Negative factors – A rating downgrade could be triggered by a significant deterioration in the company's operational profile on account of a reduced share of business. Further, a prolonged weakness in the two-wheeler industry could delay improvements in MAIL's financial profile, triggering a rating downgrade if Debt/OPBDITA on a net level exceeds 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Component Suppliers](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the subsidiary, ICTPL, given MAIL's ownership and close managerial linkages.

About the company

Munjal Auto Industries Limited is a leading auto component manufacturing company in India producing exhaust systems (or mufflers), spoke rims, steel wheel rims, PV fuel tanks, BIW parts and other automotive assemblies. MAIL has technical collaboration with Lafranconi Italy for exhaust systems of the two-wheeler industry. In addition, the company has a technical collaboration with Samsung Industries Ltd. of South Korea for fuel tanks of PVs. The company currently has an installed annual manufacturing capacity of around 94.5 lakh mufflers, 12.5 lakh rims, 15 lakh scooter wheels and 2 lakh fuel tanks. The manufacturing units of the company are located at Vadodara (Gujarat), Bawal (Haryana), Dharuhera (Haryana) and Haridwar (Uttarakhand). Currently, MAIL is the sole supplier for HMCL's muffler requirement across all two-wheeler segments, except 100 cc motorcycles where it has around 90% share of business (SoB). MAIL is a Hero Group company, with the Satyanand Munjal family holding almost 75% of its equity, and public shareholders the rest.

In Q1 FY2019, MAIL acquired ~68% stake in ICTPL for a total consideration of ~Rs. 30.0 crore and became its holding company. ICTPL supplies various composite products that find application in sectors such as wind energy, railways, marine, industrial and aerospace. Currently, the company has six operational units, two in Vadodara (Gujarat), two in Chennai, one in Nellore (Andhra Pradesh) and one in Trichy (Tamil Nadu). ICTPL has established its presence in East Europe, East Asia and North America with its reputed clientele that includes some of the world's largest windmill manufactures, such as Acciona Windpower (now merged with Nordex SE), Vestas, Enercon Gmbh and Senvion.

In Q1 FY2023, MAIL reported a consolidated OI of Rs. 480.9 crore over Rs. 435.9 crore of revenues in Q1 FY2022 led by improved volumes for both muffler and composites segments.

Key financial indicators (audited)

MAIL Consolidated	FY2021	FY2022	Q1 FY2023*
Operating income	2,126.8	1,917.5	408.9
PAT	20.4	29.6	45.8
OPBDIT/OI	4.1%	4.4%	3.5%
PAT/OI	1.0%	1.5%	11.2%
Total outside liabilities/Tangible net worth (times)	1.7	1.7	-
Total debt/OPBDIT (times)	1.7	1.4	-
Interest coverage (times)	5.6	7.2	13.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023) Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Chronology of rating history for the past 3 years: Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Oct 31, 2022	Oct 07, 2021	Oct 23, 2020	Sep 27, 2019	May 17, 2019
1	Term Loan	Long Term	80.18	43.5	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Cash Credit	Long Term	35.00		[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund based limits	Short Term	18.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-Fund based	Short Term	15.93		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long Term / Short Term	30.89		[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
6	Commercial Paper	Short Term	15.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term: Fund Based Term Loans	Simple
Long Term: Fund Based Cash Credit	Simple
Short Term: Fund Based limits	Simple
Short Term: Non-Fund Based limits	Simple
Long/ Short Term: Unallocated	Not Applicable
Commercial paper	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	Cash Credit	NA	NA	NA	35.00	[ICRA]AA- (Stable)
NA	Term loan – 1	Apr-2014	7.20%	Dec-2021	2.92	[ICRA]AA- (Stable)
NA	Term loan – 2	Jan-2019	7.20%	Jun-2025	20.83	[ICRA]AA- (Stable)
NA	Term loan – 3	Nov-2013	7.20%	Dec-2020	3.44	[ICRA]AA- (Stable)
NA	Term loan – 4	Jun-2014	7.20%	Sep-2020	0.97	[ICRA]AA- (Stable)
NA	Term loan – 5	Jan-2019	7.20%	Jun-2025	29.54	[ICRA]AA- (Stable)
NA	Term loan – 6	Sep-2017	7.10%	Dec-2023	5.62	[ICRA]AA- (Stable)
NA	Term loan – 7	Sep-2019	7.10%	Dec-2025	16.86	[ICRA]AA- (Stable)
NA	Fund based	NA	NA	NA	18.00	[ICRA]A1+
NA	Non-fund based	NA	NA	NA	15.93	[ICRA]A1+
NA	Unallocated	NA	NA	NA	30.89	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Commercial Paper	Yet to be placed			15.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	MAIL Ownership	Consolidation Approach
Munjal Auto Industries Limited	100.00% (rated entity)	Full Consolidation
Indutch Composites Technology Private Limited	68.00%	Full Consolidation

Source: MAIL Annual report

Corrigendum

Rationale dated October 31, 2022, has been corrected with revision as detailed below:

Note with Annexure II “ICRA has taken a consolidated view of the parent (MAIL) and its subsidiary while assigning the ratings” has been removed as this is not applicable.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545374
sheetal.sharad@icraindia.com

Dishant Mahajan
+91 124 454812
dishant.mahajan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.