

June 15, 2023

Fritzmeier Motherson Cabin Engineering Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	15.42	9.17	[ICRA]A+ (Stable); Reaffirmed
Cash Credit	15.00	15.00	[ICRA]A+ (Stable); Reaffirmed
Interchangeable Limits	(6.00)	(6.00)	[ICRA]A1; Reaffirmed
Unallocated Limits	3.58	0.00	-
Total	34.00	24.17	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation reflects ICRA's expectations that the credit profile of Fritzmeier Motherson Cabin Engineering Private Limited (FMCEPL) shall remain comfortable on the back of healthy business profile, in turn supported by well-established relationships with customers and a diversified revenue stream across the mining and construction equipment (MCE) and tractor industries. ICRA notes that the company has been actively engaged in improving its business prospects and the scope of supplies for its existing products by introducing additional fabricated components. Supported by these efforts and healthy demand for tractors, backhoe loaders, and dump trucks, FMCEPL reported healthy revenue growth of ~54% in FY2022 and ~68% in FY2023. The operating profitability improved to 12.3% in FY2022 (from 9.1% in FY2021) and further to 14.8% in FY2023 aided by benefits of operating leverage and better product mix. Going forward as well, the company has a healthy order pipeline in hand, aided by business wins from several key customers, which is expected to support further scale up in operations and help the company generate healthy cash flows.

ICRA notes that FMCEPL has become a wholly-owned subsidiary of Samvardhana Motherson International Limited (SAMIL) w.e.f. March 31, 2023, post-acquisition of the balance stake from Fritzmeier Holding GmbH (Fritzmeier; part of the Fritzmeier Group, Germany). The company benefits from its association with the Samvardhana Motherson Group, which provides it with strong financial flexibility and operational support. With the help of Fritzmeier as its erstwhile parent, the company has been able to develop technologically superior cabins with enhanced safety features, which augurs well for enhancing its share of business with its customers, especially in view of tightening safety and regulatory norms in India. Additionally, the presence of Fritzmeier with major global MCE Original Equipment Manufacturers (OEMs) has also supported FMCEPL in gaining business from the former's Indian subsidiaries.

ICRA notes that the company has plans to expand the capacity of its existing plant, which is expected to entail a capex of Rs. 15- 20 crore spread over the next 2-3 years. In addition, the company has plans to set up a new plant over the medium term. Even though the company has moderate capex plans over the medium term, its internal accruals are expected to remain sufficient to fund the capex requirements and, therefore, reliance on debt is expected to remain limited. 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 at ~Rs. 190 crore in FY2023, and operations limited to a niche product category, viz. supply of cabins for MCE and tractor industries. Nevertheless, ICRA notes that the company witnessed a healthy scale up in its operating income during the last two years (CAGR of ~60%), buoyed by healthy traction from its key customers, M&M, Caterpillar, JD and Komatsu.

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 moderate capex plans over the medium term, the company is likely to maintain a comfortable financial risk profile, going forward, aided by healthy cash flow generation. Moreover, the ownership of SAMIL is expected to aid the company in maintaining strong financial flexibility.

Key rating drivers and their description

Credit strengths

Strong parentage of Samvardhana Motherson Group provides operational support and financial flexibility; 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 domestically. 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 domestically and meet a high level of international safety requirements such as roll-over protective structures (ROPS) and fall-over protective structures (FOPS).

Well-established relationships with customers supported by collaboration with Fritzmeier, and 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 well-diversified customer base and strong relationships built over the years with its customers, who are large well-established players in the global MCE and agricultural equipment industries, including the likes of Caterpillar, Komatsu, M&M and JD. The customer concentration risks remain moderate for the company, given its limited dependence on each OEM (largest customer accounts for ~31% of revenues). Furthermore, with the well-established relationships with each of these OEMs and FMCEPL's proven design and development capabilities, the company's SOB with its customers remains protected to a large extent.

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 a wide variety of product segments within the MCE industry, which find usage across multiple applications, including dump trucks, excavators and backhoe loaders. Furthermore, a healthy proportion of its supplies to the domestic clientele are earmarked for exports to markets such as Europe, North America and South East Asia, which offers further diversification to revenue streams and protects it from demand downturns in the domestic MCE and tractor markets. Hence, 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. In addition to 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 last 2-3 years. Going forward, the company has a healthy business pipeline supported by business wins from several customers, which is 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 small player in the domestic auto-ancillary space, with revenues of only ~Rs. 190 crore in FY2023. This is primarily due to its scope of operations being limited to a niche product category, viz. supply of cabins to high-end CE and agricultural equipment. Nevertheless, the

company witnessed a healthy scale up in its operating income during the last two years (CAGR of ~60%), buoyed by healthy traction from its key customers, M&M, Caterpillar, JD and Komatsu.

High working capital intensity owing to minimum order quantity requirement for imported raw materials – The high import content for FMCEPL and the minimum order quantity requirements for these components, results in imported raw material stock being maintained for a few months, which leads to an increase in the working capital intensity of its operations. Nevertheless, increasing share of sales from customers who offer 30-day credit vis-à-vis 45-50 days by some other customers, have led to a reduction in debtor days over the last two years. Additionally, an improvement in scale of operations has also helped in stabilising the inventory holding period. Going forward, the 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 is **adequate** supported by comfortable cash flows from operations and availability of unutilised working capital limits (average buffer of Rs. 6.6 crore out of the sanctioned limit of Rs. 15 crore during the 12-month period ending in March 2023). In addition, the parentage of Samvardhana Motherson Group provides it with strong financial flexibility. The company has debt repayments of ~Rs. 1.7 crore p.a. and capex plans of Rs. 10-15 crore in FY2024, which are expected to be primarily met from internal accruals and available lines of credit.

Rating sensitivities

Positive factors – ICRA could upgrade FMCEPL's rating in case of a sustained scale up in operations supported by increasing share of business with key OEMs, while maintaining comfortable debt coverage indicators and liquidity position. Improvement in the credit profile of the parent company, SAMIL, could also lead to an upgrade in the ratings.

Negative factors – ICRA could downgrade FMCEPL's rating in case of increased debt-funded capex leading to deterioration in profitability and credit metrics with Total Debt/OPBITDA above 2.5x on a sustained basis. The rating 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 Rating Methodology for Auto Component Manufacturers
Parent/Group support	Parent Company: Samvardhana Motherson International Limited (SAMIL) We expect 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 rating is based on the standalone financial profile of the company.

About the company

Incorporated in 2007, Fritzmeier Motherson Cabin Engineering Private Limited 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 ROPS and FOPS. The company caters to well-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.

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

Key financial indicators

FMCEPL Standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income	113.4	190.0
PAT	5.6	13.7
OPBDIT/OI	12.3%	14.8%
PAT/OI	4.9%	7.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	2.0	0.7
Interest coverage (times)	7.7	10.2

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

Source: Company, ICRA Research; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 15, 2023	-	Mar 23, 2022	Jan 29, 2021
1	Term loans	Long term	9.17	9.17	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Cash Credit	Long term	15.00	NA	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Interchangeable Limits	Short term	(6.00)	NA	[ICRA]A1	-	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long term and short term	0.00	NA	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ A1
5	Fund-based limits	Short term	-	-	-	-	-	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Interchangeable Limits	Very Simple
Unallocated Limits	Not applicable

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	9.17	[ICRA]A+ (Stable)
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]A+ (Stable)
NA	Interchangeable Limits	NA	NA	NA	(6.00)	[ICRA]A1

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar Krishnamurthy

+91-44-45964318

ksrikumar@icraindia.com

Rohan Kanwar Gupta

+91 124 4545 808

rohan.kanwar@icraindia.com

Arushi

+91 124 4545 396

arushi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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.