July 20, 2023(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	30.92	[ICRA]AA- (Stable); reaffirmed
Long-term: Fund-based cash credit	35.00	30.00	[ICRA]AA- (Stable); reaffirmed
Short-term: Fund-based limits	18.00	0.00	-
Short-term: Non-fund based limits	15.93	16.64	[ICRA]A1+; reaffirmed
Long/ Short-term: Unallocated	30.89	102.44	[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 considers the consolidated financials of Munjal Auto Industries Limited (MAIL) and its subsidiary, Indutch Composites Technology Private Limited (ICTPL). The ratings reaffirmation factors in MAIL's stable business profile, 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, though the ramp up in FY2023 was slower than ICRA's expectations. The ratings also draw comfort from the company's conservative capital structure and adequate liquidity profile.

The ratings are, however, constrained by MAIL's high dependence on HMCL and the Indian two-wheeler (2W) industry for its cash flow generation. Although the expected healthy ramp up in ICTPL will enable MAIL to diversify its operations into the non-automotive sector, the funding requirements at the subsidiary level would also increase, especially for the Enercon business in the medium term. Hence, the ability of the subsidiary to improve its margins would remain critical to fund the growing working capital requirements going forward, though MAIL's adequate liquidity lends comfort. Also, MAIL's ability to diversify its own 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 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 would further lend stability to the overall consolidated credit profile.

Key rating drivers and their description

Credit strengths

Strong business position, key supplier status in mufflers for HMCL – 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 mufflers, along with its established relationship with HMCL, are 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 not only maintain a healthy share of business with its customers but also gain access to the latest technology to meet the changing industry requirements.

Steady revenue visibility over the medium term and healthy order book at the subsidiary level as well – Owing to a strong share of business with HMCL, MAIL witnessed 9% volume growth in mufflers in FY2023, though it could not translate into revenue growth amid a significant decline in the pricing of mufflers. The realisation decline did not have any material impact on the company's profitability as the raw material price fluctuations are passed to HMCL. Going forward, muffler volumes are expected to grow in line with 2W industry volumes in the near to medium term. Moreover, MAIL's subsidiary, ICTPL, has a healthy order book of ~Rs. 660 crore for FY2024, resulting from medium-to-long-term offtake agreements with its key clients such as Nordex, Enercon and Senvion India that lend 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.

Adequate liquidity profile and modest external debt – MAIL had consolidated debt of Rs. 282 crore as on March 31, 2023, which includes Rs. 184 crore of lease liabilities and Rs. 98 crore of external debt. MAIL continued to maintain adequate liquidity in the form of liquid investments and unutilised fund-based working capital limits on a standalone basis, which lends comfort. After adjusting for the liquid investments, the consolidated Net Debt/OPBITDA stood at 1.7 times. While MAIL's cash flow generation from operations is expected to be stable, the pace of ICTPL's ramp up will be crucial for stability of the consolidated credit metrics.

Credit challenges

Significant decline in margins in subsidiary in FY2023 owing to delay in ramp-up of new facilities; ability to improve margins in FY2024 critical to improve return metrics and maintain consolidated credit profile – The subsidiary, ICTPL, witnessed a sharp decline in OPM to 8.3% in FY2023 from 16.9% in FY2022, owing to increased employee costs and sizeable tooling costs for Enercon and Senvion facilities, which are in the process of ramp up and yet to break-even. The working capital requirements in the subsidiary are expected to increase with a ramp up of operations and cessation of escrow support from Enercon. Hence, the timely ramp up of the facilities will be critical to fund the working capital requirements and maintain the credit profile, at the consolidated level.

High dependence on single customer and product segment; to improve in the long term with scale up of subsidiary – MAIL derives around 90% 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 product segments and other OEMs remains negligible. As a result, its return metrics, such as RoCE, remain modest in relation to the rating category. Further, due to high dependence on HMCL and the 2W industry, MAIL's volume performance remains vulnerable to HMCL's performance in the 2W category and overall 2W demand. However, the key supplier status and HMCL's market leadership position mitigate 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, in the medium term.

Increasing electrification in the 2W industry threatens mufflers as a product in the long run – As HMCL is mainly present in the motorcycles segment, the company's business could see meaningful impact from electric 2Ws (e-2W) over the medium and long term, as 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 only in the renewable energy space but also as a potential supplier of composite-related parts to the EV segment.

Environmental and Social Risks

Environmental considerations: MAIL's key customer, HMCL, derives a material proportion of its demand from the rural segment. Any 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 has been diversifying 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.

Social considerations: MAIL faces social risks pertaining to product safety and quality, wherein instances of product recall 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, 2023, the reported warranty provisions were low 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 growing traction in terms of the development of e-2Ws, especially in the scooter segment. As the company has significant dependence on the muffler business, the 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.

Liquidity position: Adequate

MAIL's has adequate liquidity, supported by free cash and liquid investments of Rs. 110-120 crore and unutilised working capital limits of Rs. 35-40 crore, on a consolidated basis, as of June 2023. Going forward, while the company has moderate debt repayment obligations (Rs. 18-25 crore per annum at a consolidated level), its cash accruals are expected to be sufficient to meet the same. There are no major capex plans in the near to medium term.

Rating sensitivities

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

Negative factors – A ratings downgrade could be triggered by a significant deterioration in the company's standalone operational profile, on account of a reduced share of business and/or lower-than-expected ramp up in subsidiary, leading to continued margin pressure at subsidiary level. Specific credit metric for downgrade is if consolidated Net Debt/OPBDITA 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 (MAIL) 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 2W industry. In addition, the company has a technical collaboration with Samsung Industries Ltd. of South Korea for fuel tanks of PVs. At present, the company 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 at Vadodara (Gujarat), Bawal (Haryana), Dharuhera (Haryana) and Haridwar (Uttarakhand). At present, MAIL is the sole supplier for HMCL's muffler requirement across all 2W segments, except 100 cc motorcycles where it has sizeable share of business (SoB), as one out of two preferred vendors. MAIL is a Hero Group company, with the Satyanand Munjal family holding almost 75% of its equity, and public shareholders the rest. It also has non-Hero customers such as Piaggio and Tata Motors Limited.

Indutch Composites Technology Pvt. Ltd (Subsidiary of MAIL)

In Q1 FY2019, MAIL acquired ~68% stake in Indutch Composites Technology Pvt. Ltd (ICTPL) for a total consideration of ~Rs. 30.0 crore and became its holding company. ICTPL manufactures composite products that find applications in sectors such as wind energy, railways, marine, industrial, and aerospace. At present, the company has four operational units, two in Vadodara city (Halol and Waghodia) and two in Chennai (Mappedu and Vengal). ICTPL has a reputed clientele which includes some of the large global windmill manufactures –Nordex SE, Vestas, LM Windpower, Enercon Gmbh and Senvion.

Key financial indicators (audited)

MAIL Consolidated	FY2021	FY2022	FY2023
Operating income	2,126.8	1,917.5	1,990.8
PAT	20.4	29.6	51.6
OPBDIT/OI	4.1%	4.4%	4.9%
PAT/OI	1.0%	1.5%	2.6%
Total outside liabilities/Tangible net worth (times)	1.7	1.7	2.2
Total debt/OPBDIT (times)	1.7	1.4	2.9
Interest coverage (times)	5.6	7.2	3.6

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

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 June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jul 20, 2023	Oct 31, 2022	Oct 07, 2021	Oct 23, 2020
1	**Term Loan**	Long Term	30.92	30.92	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**
2	**Cash Credit**	Long Term	30.00	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**
3	**Fund based limits**	Short Term	0.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	**Non-Fund based**	Short Term	16.64	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
5	**Unallocated**	Long Term / Short Term	102.44	-	**[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+**

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	30.00	[ICRA]AA- (Stable)
NA	**Term loan – 1**	Jan-2019	7.20%	Feb-2024	1.50	[ICRA]AA- (Stable)
NA	**Term loan – 2**	Jan-2019	7.20%	Dec-2026	12.65	[ICRA]AA- (Stable)
NA	**Term loan – 3**	Sep-2019	7.10%	Jun-2025	16.77	[ICRA]AA- (Stable)
NA	**Short term fund based**	NA	NA	NA	0.00	[ICRA]A1+
NA	**Short term non-fund based**	NA	NA	NA	16.64	[ICRA]A1+
NA	**Unallocated**	NA	NA	NA	102.44	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	**Commercial Paper**	Yet to be placed			15.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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 July 20, 2023, 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.

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