

April 05, 2024

Maxop Synergies Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Term Loan	8.69	4.94	[ICRA]BBB (Stable); reaffirmed
Total	8.69	4.94	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Maxop Synergies Private Limited (MSPL) factors in the company's strategic importance for its parent, Maxop Engineering Company Private Limited (MECPL¹), a major aluminium die cast component manufacturer, primarily for the automotive industry. MSPL is a subsidiary of MECPL (holds a 99.99% stake) and has leased out its manufacturing infrastructure (land, building and some machines) to the latter. The company continues to report stable rental income earned from its parent company, supported by the contractual rental agreement between the two entities, providing stable earnings visibility for MSPL over the medium term. The rating also factors in the high likelihood of its parent, MECPL, extending financial support to the company, should there be a need.

The rating, however, is constrained by the company's modest scale of operations and limited accrual generation. Rental income from its parent remains the sole source of income for MSPL. The entity also remains exposed to asset concentration risk since its assets—land, building and machinery—are rented to a single lessee, MECPL. Nonetheless, MSPL's strategic importance for its parent mitigates the risk to an extent.

The Stable outlook on the rating reflects ICRA's expectation that the company will maintain its credit profile, supported by its strong parentage, steady rental income and reduced term loan liability over the medium term.

Key rating drivers and their description

Credit strengths

MSPL benefits from its strong parentage, MECPL – MSPL, the wholly-owned subsidiary of MECPL, holds significant strategic importance for its parent. Its assets are leased out to MECPL, which utilizes them for manufacturing operations in Manesar (Haryana). With a stable demand outlook for its products, MECPL is expected to continue using MSPL's assets for its manufacturing operations in the future and provide financial support to the company in case of any exigency, as demonstrated by past fund infusions.

Rental agreement with MECPL, with an annual escalation clause, provides revenue visibility – MSPL earns an annual rental income of ~Rs. 6.3 crore, through leased-out assets to its parent. The rental agreement between the parties includes an annual rental escalation clause, providing visibility to the company's earnings profile.

¹ Rated [ICRA]A+ (Stable)/ [ICRA]A1

Credit challenges

Modest scale of operations – MSPL has a modest scale of operations as it does not have any manufacturing operations of its own and rental income from the parent remains the sole revenue source for the company. While the revenue is expected to remain stable in the near term, continued debt reduction with scheduled annual repayments is expected to result in an improvement in MSPL’s internal accruals and coverage indicators, with DSCR increasing to 1.5-2.0 times over the medium term.

Exposed to asset concentration risk – MSPL remains exposed to asset concentration risk as its assets—land, building and machinery—are rented out to a single lessee, MECPL. Owing to a limited diversification of assets and business segments with no other source of income, the risk is expected to continue. However, MSPL’s strategic importance for its parent mitigates the risk to an extent.

Liquidity position: Adequate

MSPL’s liquidity position is adequate, which is supported by the healthy liquidity position and financial flexibility provided by its parent – MECPL. At a standalone level, the company had unencumbered cash/bank balances of ~Rs. 0.05 crore as of December 2023, with debt repayment obligations of Rs. 2-3 crore p.a. over FY2024 and FY2025; which can be comfortably serviced through the rental income earned from its parent entity. Owing to its strategic importance to its parent, MECPL is expected to provide financial support to MSPL in case of any exigency, as demonstrated by past fund infusions.

Rating sensitivities

Positive factors – ICRA could upgrade MSPL’s rating if the company demonstrates a significant scale-up of operations and accrual generation, facilitated by the diversification of its asset portfolio. Moreover, an enhancement in the credit profile of its parent may also trigger a rating upgrade.

Negative factors – Pressure on MSPL’s rating could arise if considerable decline in internal accrual generation and significant debt-funded capex result in weakening of the company’s credit metrics and liquidity position. Further, any weakening of the linkages with and/ or credit profile of its parent, MECPL, may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology Auto Components
Parent/Group support	The reaffirmed rating factor in the high likelihood of its parent group, MECPL, extending financial support to the company.
Consolidation/Standalone	Standalone

About the company

MSPL does not conduct independent manufacturing operations of its own. The company earns an annual rental income by leasing its assets (located in Manesar, Haryana) to its parent company (MECPL), which serves as its sole source of revenue.

Commencing commercial production in 2003, MECPL manufactures aluminium alloy, precision high pressure die casting (HPDC) and gravity die casting (GDC) components, which find application in the automotive and non-automotive industries. The company has been promoted by Mr. Shailesh Arora, holding 33% stake, with the majority (67%) stake held by Fairfax India (a part of Fairfax Financial Holdings Group). Fairfax India acquired a 51% stake in MECPL in November 2021, which was

subsequently increased to 67% in September 2022. MECPL operates out of its manufacturing units in Manesar (Haryana) and Jaipur (Rajasthan).

Key financial indicators (audited)

MSPL – Standalone	FY2022	FY2023
Operating income	6.3	6.3
PAT	1.9	2.2
OPBDIT/OI	96.2%	92.2%
PAT/OI	29.7%	35.1%
Total outside liabilities/Tangible net worth (times)	2.4	1.4
Total debt/OPBDIT (times)	2.5	1.9
Interest coverage (times)	4.1	5.2

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
1 Fund based – Term loans	Long-term	4.94	4.94	April 5, 2024 [ICRA]BBB (Stable)	-	Mar 20, 2023 [ICRA]BBB (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based limits – Term loan	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	Long-term – Fund based limits – Term loan	FY2018-FY2022	6.50-8.50%	FY2024-FY2026	4.94	[ICRA]BBB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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