April 05, 2024

Maxop Engineering Company Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Term Loan	145.29	202.80	[ICRA]A+ (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Fund-based Limits – Cash Credit	166.40	166.40	[ICRA]A+ (Stable); reaffirmed
Long-term/ Short-term – Unallocated	19.62	25.65	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed/assigned for enhanced amount
Total	**331.31**	**394.85**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for Maxop Engineering Company Private Limited (MECPL) factors in its healthy revenue growth in 9M FY2024 and expectations of sustenance of the same over the near to medium term, aided by expansion of manufacturing capacities, addition of new customers (especially in the e-mobility segment), steady demand from existing customers and benefits of geographic diversification with presence in the domestic and export markets. MECPL has also been able to sustain its operating margins, supported by its integrated manufacturing operations, increasing operating leverage and raw material price volatility pass-through arrangement with customers. Higher internal accrual generation has continued to result in a comfortable capital structure and debt protection metrics, despite a slight increase in debt levels to fund ongoing capex and incremental working capital requirements in order to achieve the projected growth of MECPL. Also, to fuel its future growth, MECPL is likely to continue to invest towards enhancing its capacities and product base, funded through a mix of debt and internal accruals. However, ICRA expects the company to continue to generate commensurate returns on the same, underpinned by its strong technological/manufacturing capabilities, growing wallet share with existing and recently acquired new nominations from the customers and increased revenue diversification.

Additionally, the ratings continue to factor in MECPL's promoter's extensive experience in the aluminium die casting and machining products for the automotive industry, and the company's established position as a leading and single-source supplier to major automotive Original Equipment Manufacturers (OEMs). The ratings also consider financial flexibility, managerial and operational support enjoyed by MECPL from its parent - Fairfax Financial Holdings Limited (Fairfax,[1] which holds a 67% stake in the company through its step-down subsidiaries).

However, the ratings remain constrained by MECPL's operating margins being exposed to fluctuations in key raw material prices, which is mitigated to an extent through the raw material cost pass through with a lag of a quarter. The company's scale of operations also remains moderate, relative to its peers in the industry, despite healthy revenue growth in the recent fiscals. The ratings take into account the high working capital intensity of the business, driven by higher inventory and receivable period. Also, given that majority of revenue for the company is concentrated in the automotive industry, especially passenger vehicles segment, it remains susceptible to inherent cyclicality in the industry.

The Stable outlook on the rating reflects ICRA's expectations that the company will benefit from its established business position, expanding capacities and widening customer base, enabling it to report higher revenue growth and accrual generation.

[1] rated Baa2/Stable by Moody's Investors Service

Key rating drivers and their description

Credit strengths

Financial flexibility as well as managerial and operational support from majority shareholder, Fairfax – The Fairfax Group holds majority stake of 67% in MECPL through its Indian investment holding company, Fairfax India Holdings Corporation. Given Fairfax's successful track record of managing diverse businesses across the globe, MECPL enjoys strong financial flexibility as well as managerial and operational support from Fairfax. MECPL continues to ensure financial prudence through best practices and strong corporate governance standards, enhanced by the support of Fairfax, along with optimisation of its working capital cycle and increased focus on positive cash flow generation. Fairfax has two nominee directors on the board of MECPL.

Extensive track record and experience of its promoters in the aluminium casting business – Commencing its commercial production in 2003, MECPL has been promoted by Mr. Shailesh Arora, who has an experience of over two decades in the aluminium die casting industry. MECPL has maintained its strong track record of operations through its six manufacturing units in Manesar (Haryana) and Jaipur (Rajasthan), with an annual die casting capacity of ~30,000 MT p.a. and two backward integration units based on the concept of molten alloy.

Established relationships and healthy share of business with customers – Over the years, MECPL has developed a wide client base of leading domestic and global OEMs and tier-1 suppliers, including reputed players such as Maruti Suzuki India Limited (MSIL), Honda Motor Company, Groupe SEB, Regal Rexnord Corporation, Kimball Electronics and Mitsubishi Motors Corporation, among others. The company has maintained a healthy share of business with its key customers, aided by its technological capabilities and diverse product profile of automotive components and heating, ventilation, and cooling (HVAC) as well as food processing parts for the non-automotive industry. In recent years, the company has also forayed into the electric vehicles (EV) segment with addition of a reputed global EV OEM and few tier-1 suppliers catering to EV OEMs in the domestic market. This is expected to support the revenue growth of the company over the near term.

Geographic diversification given its presence in both domestic and export markets – MECPL's revenue base has remained geographically diversified with an established presence in both the domestic and export markets. Historically, exports contributed ~65% to the company's revenues; however, the same moderated to ~46% in FY2023 due to external market conditions such as elevated inflation, particularly across the US and Europe, and other supply chain disruptions exacerbated by geopolitical conflicts however, MECPL's growth continues to be supported by resilient demand in the domestic market. Moreover, the exports have picked up well in FY2024, supported by recovery of demand and addition of global customers. Going forward, growth is expected to be driven by higher share in the export markets (expected to rebound to ~55% in near future), aided by capacity expansions and widening customer and product bases.

Adequate financial risk profile – MECPL's operating income has witnessed steady growth in recent years, increasing to Rs. 571.3 crore in FY2023 (Rs. 260.9 crore in FY2018). Moreover, it achieved operating income of Rs. 494.8 crore in 9M FY2024 against Rs. 409.1 crore in 9M FY2023, supported by healthy growth in the domestic market, recovery in exports and new customer additions. This, coupled with stable operating margins, has led to healthy internal accrual generation and continued to result in a comfortable capital structure and debt protection metrics. To sustain its growth momentum, MECPL is likely to incur debt-funded capex towards capacity expansion over the next two fiscals.

Credit challenges

Moderate scale of operations – Despite reporting healthy revenue growth in recent years, MECPL's scale of operations remains moderate, compared to other leading auto component manufacturers. At present, its top-10 customers drive ~80%

of its revenue. However, MECPL is expected to report healthy growth over the medium term, resulting in increasing economies of scale.

High working capital intensity – The inventory cycle of the company remains high, given the integrated nature of manufacturing operations, relatively high transit time due to presence in the exports markets and wide variety of products manufactured through multiple facilities. Coupled with receivables cycle of 2-3 months, MECPL's working capital intensity, as reflected in NWC/OI[2], has remained high at ~30% in recent years. The same is expected to remain at similar levels, going forward, due to higher funding requirements on an increasing revenue base.

Exposed to raw material price volatility and cyclicality inherent in the automotive sector – MECPL's profitability remains susceptible to fluctuations in the price of its key raw material, aluminium. However, the raw material price increase pass-through mechanism with a lag of a quarter with its customers, mitigates the risk. This has enabled the company to largely sustain its operating profit margins over the years. However, there could be a temporary impact on margins from any adverse volatility in prices. The company also remains exposed to inherent cyclicality in the automotive industry.

Liquidity position: Adequate

MECPL's liquidity position is **adequate,** supported by steady internal accrual generation and unencumbered cash/bank balances of Rs. 10.8 crore as on January 31, 2024. The company had undrawn working capital limits of ~Rs. 8-10 crore as on this date, which further support its liquidity profile. The company has debt repayment obligations of Rs. 35-40 crore p.a. over FY2024 and FY2025; however, its internal accrual generation is expected to be more than sufficient to service the same. Moreover, the company is expected to incur capex of ~Rs. 140-150 crore over FY2024 and FY2025, which is expected to be funded through mix of debt and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade MECPL's ratings, if the company reports healthy revenue growth and internal accrual generation, resulting in strengthening of its debt protection metrics and liquidity profile. A specific credit metric that could result in an upgrade is if Total Debt/OPBDITA is less than 1.5 times, on a sustained basis.

Negative factors – Pressure on MECPL's ratings could arise, if considerable decline in internal accrual generation, significant debt-funded capex or deterioration in working capital cycle, result in weakening of the company's credit metrics and liquidity position. The weakening of linkages with its parent – Fairfax may also result in a downgrade of the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MECPL. As on March 31, 2023, the company had two subsidiaries, which are enlisted in Annexure II.

[2] *Net working capital/ Operating income*

About the company

MECPL, commencing commercial production in 2003, manufactures aluminium alloy, precision high-pressure die castings (HPDC) and gravity die castings (GDC) components, which find applications in the automotive and non-automotive industries. The company has been promoted by Mr. Shailesh Arora, who currently holds 33% stake with majority (67%) stake held by Fairfax India (a part of the Fairfax Financial Holdings Group). Fairfax India had acquired a 51% stake in MECPL in November 2021, which was subsequently increased to 67% in September 2022. MECPL operates from its manufacturing units in Manesar (Haryana) and Jaipur (Rajasthan).

Key financial indicators (audited)

MECPL – Consolidated	FY2022	FY2023
Operating income	511.1	571.3
PAT	60.1	48.5
OPBDIT/OI	22.8%	18.5%
PAT/OI	11.8%	8.5%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	2.0	2.5
Interest coverage (times)	5.8	6.4

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 5, 2024	-	Mar 20, 2023	-
1	**Fund based – Term loans**	Long-term	202.80	135.31	**[ICRA]A+ (Stable)**	-	[ICRA]A+ (Stable)	-
2	**Fund based – Cash Credit**	Long-term	166.40	-	**[ICRA]A+ (Stable)**	-	[ICRA]A+ (Stable)	-
3	**Unallocated**	Long-term/ Short-term	25.65	-	**[ICRA]A+ (Stable)/[ICRA]A1**	-	[ICRA]A+ (Stable)/[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based limits – Term loan	Simple
Long-term – Fund based limits – Cash credit	Simple
Long-term/ Short-term – Unallocated	NA

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	FY2016-FY2021	6.50-8.50%	FY2025-FY2027	202.80	[ICRA]A+(Stable)
NA	Long-term – Fund based limits – Cash Credit	-	-	-	166.40	[ICRA]A+(Stable)
NA	Long-term/ Short-term – Unallocated	-	-	-	25.65	[ICRA]A+(Stable)/[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	MECPL Ownership	Consolidation Approach
Maxop Synergies Private Limited	99.99%	Full consolidation
Maxop Engineering USA Inc.	99.99%	Full consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

Deepak Jotwani
+91 124 4545 870
Deepak.jotwani@icraindia.com

Charvi Sagar
+91 124 4545 373
Charvi.sagar@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