April 25, 2024

CIE Automotive India Limited (erstwhile Mahindra CIE Automotive Limited): Ratings reaffirmed; rating withdrawn for commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ short-term – Fund-based/ non-fund based – Working capital facilities	575.0	575.0	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Commercial paper	200.0	0.0	[ICRA]A1+; reaffirmed and withdrawn
Total	**775.0**	**575.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation reflects the steady operational performance demonstrated by CIE Automotive India Limited (CAIL or the company) (erstwhile Mahindra CIE Automotive Limited) through CY2023. While the company reported a 6% YoY revenue growth on a consolidated level in CY2023, the financial performance for the year was also characterised by a steady improvement in profitability (as reflected by operating margin improving from 13.8% in CY2022 to 15.3% in CY2023 mainly on account of easing of commodity costs). The company is expected to maintain a comfortable operational and financial profile, going forward, aided by its strong market position and continued focus on maintaining profitability.

The company has been reporting healthy volume offtake across key business segments, outperforming the underlying market consistently, supported by the addition of new customers and increasing wallet share with its existing customers. This has resulted in healthy revenue expansion for CAIL, which coupled with focus on its profitability has supported it in reporting a healthy margin profile as well as improvement in its core return indicators. Presence across multiple technologies, segments and geographies is expected to enable CAIL to maintain its revenue growth momentum and healthy profitability, going forward as well. The ratings also factor in the reduction in CAIL's overall debt levels in the recent past, to Rs. 855.4 crore (as on December 31, 2023) from Rs. 1,899.5 crore (as on December 31, 2020), which coupled with healthy cash and liquid investments balance has led to a net cash surplus position for the company (as on December 31, 2023).

The ratings continue to factor in CAIL's large scale of operations, comfortable leverage and coverage indicators and its well-diversified presence across geographies, products, end-user industries including the passenger vehicle (PV), commercial vehicle (CV), two-wheeler (2W) and off-highway segments. The company is expected to continue to benefit from CIE Automotive SA's (CIE) strong technological expertise, along with its established relationships with global original equipment manufacturers (OEMs), which support its business prospects.

The ratings, however, remain constrained by the possible impact from the inherent cyclicality in the global automotive industry and its impending electrification on the company's revenue and profitability over the medium to long-term, as some of its product portfolio comprises engine-specific components. However, CAIL's efforts to adapt to the electric vehicle (EV) space by onboarding EV clients (mainly PV clients in Europe who focus on aluminium casting products that are important in the lightweighting strategy of EV OEMs) and developing powertrain-neutral products, are expected to help mitigate this risk, going forward.

While ICRA expects CAIL to maintain its strong credit profile even through any organic or inorganic investment plans, ICRA would evaluate the impact of any such investments on a case-by-case basis. Any large debt-funded acquisition or greenfield expansion, which can have a material impact on the company's credit profile, will remain a rating sensitivity.

ICRA has also reaffirmed and withdrawn the ratings assigned to the commercial paper programme of CAIL in accordance with ICRA's policy on withdrawal at the request of the company as there is no amount outstanding against the rated instrument.

The Stable outlook on the long-term rating reflects ICRA's expectation that CAIL will continue to benefit as part of the CIE Group, given the technological and financial support provided by the Group to CAIL over the years, and will continue to maintain strong business and financial risk profiles.

Key rating drivers and their description

Credit strengths

Operational and managerial support from CIE; synergies from CIE's global operations – Being one of the largest global automotive component suppliers, CIE enjoys a diversified automotive footprint across multiple geographies and product segments, such as forgings, castings and stampings, providing CAIL with ample access to operational and technological support. Moreover, CAIL enjoys strategic importance for CIE's global operations as the auto component division for the South Asian and South-East Asian markets. The company is expected to continue to benefit from CIE's strong technological expertise along with established relationships with global OEMs.

Well-diversified operations in terms of products, geographical reach, clientele and industry segments – CAIL is present across six business segments—forging, stamping, casting (iron and aluminium), gears, composite and magnetic products, and caters to multiple automotive segments including the PV, CV, tractors, 2W and off-highway segments. Further, the company is well diversified in terms of its geographical revenue base, including India (contributed 63% of its revenues in CY2023) and Europe (37%), as well as in terms of clients, catering to several reputed automotive OEMs in India as well as Europe. CAIL sold off its German forging business (CFG) in CY2023, with net consideration from the transaction (adjusted for debt, pension and other liabilities) being EUR 25 million.

Large scale of operations; healthy operational profile as reflected by steady revenue growth momentum and comfortable profitability – In terms of revenues, CAIL is among the largest auto component suppliers in India. In Europe, it is one of the leading suppliers for forged components for the PV and off-highway segments. Its position as a leading auto-component supplier, along with its established track record, help the company in client retention and acquiring new customers across the key business segments. ICRA also notes the healthy operational profile demonstrated by CAIL over the years, as reflected by steady revenue growth momentum (with CAGR of 15% during CY2020-CY2023, on a consolidated level) and comfortable profitability (with operating margins at the mid-teens over the past three years, on a consolidated level).

Healthy and improving capital structure and coverage metrics – Despite multiple acquisitions in the past, CAIL's leverage and coverage indicators remain comfortable with a gearing of 0.1 times as on December 31, 2023 and Net Debt/OPBIDTA of -0.1 times and an interest cover of 13.3 times during CY2023. With expected annual cash accruals of over Rs. 800 crore likely to remain sufficient to meet its capital expenditure requirements of ~Rs. 500-600 crore annually, its dependence on external borrowings is likely to remain minimal, and the company's credit profile is likely to further strengthen over the medium term. Given the healthy accruals generation and funding support received from related parties, CAIL's dependence on external borrowings to meet its long-term funding requirements is expected to remain limited over the near to medium term.

Credit challenges

Exposure to cyclicality in the automotive industry – The auto supplier industry remains vulnerable to the cyclicality inherent in the automotive industry and the pricing pressures faced by auto suppliers from large OEMs. Nevertheless. CAIL's presence across multiple end-user segments (PVs, CVs, 2Ws, tractors, off-road) and geographies (India and Europe) provides some comfort against any segment-specific or geography-specific risks. Nevertheless, the company's ability to navigate segment-specific and region-specific challenges and maintain its strong profitability and credit metrics would remain monitorable.

Impending electrification of automotive industry may impact revenues and profitability – The trend in electrification that is evident in the automotive industry, both domestically and globally, has the potential to impact the company's revenues and profitability over the medium to long-term, especially as some part of its product portfolio caters specifically to internal combustion engines (ICEs). CIE Galfor, one of the most profitable business operations within the CIE Group, primarily caters to the crankshaft requirement in the European PV segment, which has been reporting fast adoption of EVs. Accordingly, with around 10-15% of its business dependent on ICE components (on a consolidated basis), the company is exposed to electrification risks to an extent. Nevertheless, its efforts to gradually diversify into the EV space by targeting new EV products and customers, and orders secured in this regard, are expected to partially offset the said impact.

Environmental and Social Risks

Environmental considerations: Even as CAIL is not directly exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with the bulk of its product portfolio being used across different fuel powertrains, its automotive-manufacturer customers remain highly exposed to the same. Accordingly, CAIL's prospects remain linked to the ability of its customers and suppliers to meet tightening emission requirements. The company may need to continue to invest materially to develop products to cater to EVs, even as a transition towards the same in the segments CAIL operates in, is likely to be only gradual, especially for its Indian operations. The company is continually taking measures to reduce its carbon emissions, and currently procures around 60-65% of its overall electricity from green (solar) sources in India.

Social considerations: CAIL, like most automotive component suppliers, has a healthy dependence on human capital; and, hence, retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption-free operations for the entity. Another social risk that CAIL faces pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, CAIL's experience in catering to leading automotive manufacturers globally underpins its ability to mitigate these risks, to an extent.

Liquidity position: Strong

The company's liquidity profile is strong, supported by large, unencumbered cash and liquid investments of around Rs. 1,020 crore (consolidated) and sizeable buffer of around Rs. 245 crore (standalone) in the form of undrawn bank lines as of December 2023. The liquidity profile is further enhanced by healthy cash generation of ~Rs. 1,000-1,200 crore per annum, at a consolidated level. Against these, the company plans for capex of ~Rs. 500-600 crore annually and has limited debt repayment obligations of around Rs. 20-30 crore per annum over the medium term.

Rating sensitivities

Positive factors – An upgrade of the long-term rating will remain contingent upon a sizeable scaling up of operations while continuing to maintain healthy profitability, liquidity and coverage indicators.

Negative factors – The ratings may be revised downwards, in case of any significant deterioration in the profitability and credit metrics of the company on account of weakness in demand across the automotive industry, or due to any large debt-funded capex/investments, which adversely impacts its credit profile and liquidity profile on a sustained basis. A specific credit metric for a downgrade would be Net Debt/OPBDITA above 1.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology - Auto Components ICRA Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CAIL. As on December 31, 2023, the company had five subsidiaries and four step-down subsidiaries, which are enlisted in Annexure-2.

About the company

CAIL is part of the global auto component player, CIE Automotive Group, based in Spain. The company was earlier known as Mahindra Forgings Limited (part of the Mahindra Systech division) and was later renamed, following the integration of the Mahindra Group's Systech business[1] with CIE's operations, which was announced in 2013. The complete integration was achieved in FY2015 during which Mahindra Forgings (India & Europe), Mahindra Ugine Steel (MUSCO), Mahindra Investment (the gears division), Mahindra Hinoday and the European forging division of CIE (CIE Galfor, Spain) were combined into a single entity—Mahindra CIE Automotive Limited. The entity was subsequently renamed as CIE Automotive India Limited, following a stake sale by the Mahindra Group in May 2023. At present, CAIL has operations in Italy, Spain, Lithuania and India.

Apart from its strong presence in forgings, CAIL is among the largest ductile iron casting and compression moulded auto component manufacturers in India. Its standalone operations consist of six product segments—forgings, castings (iron and aluminium), stampings, composites, magnetic products and gears. Following the acquisition of Bill Forge Private Limited in CY2016, the company gained strong traction in precision forged and machined automotive components for the domestic 2W and PV segments. Its European operations comprise largely of forged components, while Metalcastello is primarily involved in the gears segment. In April 2019, the company completed the acquisition of Aurangabad Electricals Limited (AEL), which helped it to enter the aluminium die-casting business in the Indian market. In December 2022, the company had announced its plans to sell off the Germany forging business (CIE Forgings Germany/CFG) and, subsequently, in August 2023, it announced the approval received from the Board for divestment of 100% stake held by CFG in its wholly-owned subsidiaries.

Key financial indicators

CAIL	CY2022 Audited	CY2023 Audited
Operating Income (Rs. crore)	8,789.9	9,280.3
PAT (Rs. crore)	-138.4	1,125.6
OPBDIT/OI (%)	13.8%	15.3%
PAT/OI (%)	-1.6%	12.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.6
Total Debt/OPBDIT (times)	0.8	0.6
Interest Coverage (times)	53.3	13.3

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: CAIL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] *Mahindra Systech, a division of Mahindra & Mahindra, was created in 2004 to capitalise on the opportunities presented by the growth of the Indian automobile component industry. The Systech division was formed through the amalgamation of some existing Mahindra Group companies with a series of acquisitions in India and Europe. The Systech auto component division (comprising multiple companies, listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites.*

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as of December 31, 2023	Date & Rating on	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			(Rs. crore)	(Rs. crore)	25-Apr-2024	22-Aug-2023 27-Apr-2023	3-Mar-2023 29-Apr-2022	29-Apr-2021
1	Fund-based/ Non-Fund Based Facilities	Long-term/ Short-term	575.0	294.5	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA- (Positive)/ [ICRA] A1+	[ICRA]AA- (Positive)/ [ICRA] A1+
2	Commercial Paper	Short-term	200.0	0.0*	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated Amount	Long-term/ Short-term	-	-	-	-	[ICRA]AA- (Positive)/ [ICRA] A1+	[ICRA]AA- (Positive)/ [ICRA] A1+

Source: Company; not placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-Fund Based Facilities	Simple
Commercial Paper	Very 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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based/Non-Fund Based Facilities	-	NA	-	575.00	[ICRA]AA (Stable)/ [ICRA] A1+
Unplaced	Commercial Paper	-	NA	-	200.00*	[ICRA]A1+; withdrawn

*Source: Company; *not placed*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	CAIL Ownership	Consolidation Approach
Stokes Group Limited (liquidated on September 5, 2023)	-	Full Consolidation
CIE Forgings Germany GmbH	100%	Full Consolidation
Jeco Jellinghaus GmbH (upto June 30, 2023)	-	Full Consolidation
Gesenkschmiede Schneider GmbH (upto June 30, 2023)	-	Full Consolidation
Falkenroth Umformtechnik GmbH (upto June 30, 2023)	-	Full Consolidation
Schoeneweiss & Co. GmbH (upto June 30, 2023)	-	Full Consolidation
Metalcastello SPA	99.96%	Full Consolidation
CIE Galfor S.A.U.	100%	Full Consolidation
CIE Legazpi S.A.	100%	Full Consolidation
UAB CIE LT Forge	100%	Full Consolidation
BF Precision Private Limited	100%	Full Consolidation
Bill Forge Mexico S de RL de CV	99.99%	Full Consolidation
CIE Aluminium Castings India Limited	100%	Full Consolidation
CIE Hosur Limited	100%	Full Consolidation

Source: CAIL

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

Sahil Udani
+91 22 6114 3465
sahil.udani@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
yashowardhan.swami@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.

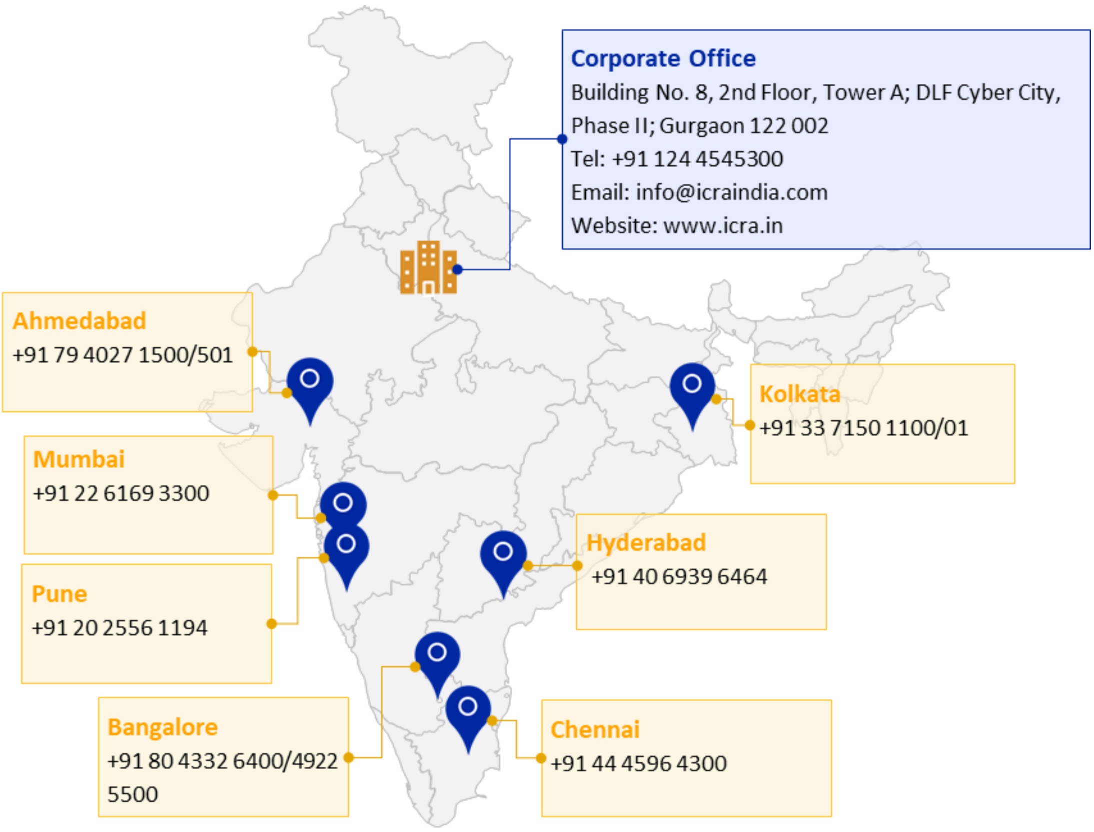
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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.