May 31, 2024 (Revised)

Mahindra Auto Steel Private 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 Loan	13.00	66.50	[ICRA]AA- (Stable); reaffirmed
Short-Term Non-Fund-Based Limits	235.00	240.00	[ICRA]A1+; reaffirmed
Long-Term Fund Based Interchangeable^	(135.00)	(130.00)	[ICRA]AA- (Stable); reaffirmed
Long-Term/Short-Term Unallocated	60.00	-	-
Total	**308.00**	**306.50**	

**Instrument details are provided in Annexure-I; ^Cash credit facility is sublimit of non-fund based limit*

Rationale

The reaffirmation in the ratings factor in the healthy improvement in Mahindra Auto Steel Private Limited's (MASPL or the company) operational performance over the past, and expectations that this will continue over the medium term. In line with strong demand in the automotive industry, and particularly from its key customer, Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA (Stable)/[ICRA]A1+), MASPL reported YoY growth of 46% in revenues during FY2024. While EBITDA margins have contracted marginally FY2024 to 11.4% from 12.0% in FY2023 and 13.2% in FY2022, it continues to remain healthy. The ratings also favourably factor in the strong financial flexibility enjoyed by MASPL, as part of the Mahindra Group, its status as a joint venture (JV) among Mahindra Accelo Limited (MAL; rated [ICRA]AA+(Stable)/A1+) and Mitsui & Co. Limited (Mitsui), and its adequate liquidity profile. The ratings also derive comfort from MASPL's location-specific advantage from its proximity to M&M's plants and to other auto OEMs.

The ratings are, however, constrained by the company's susceptibility to cyclical downturns in the automobile industry, which is the only end-user industry for its products at present; and the customer concentration risk, deriving ~90% of its total revenues from M&M, either directly or indirectly. The ratings also consider MASPL's exposure to forex risks since the company has started importing some part of its raw material requirement, while its entire sales goes into the domestic market. Nevertheless, the company follows hedging practices, which partly mitigate such risks. Further, the company' profitability is susceptible to fluctuations in prices of key raw materials, although it has been passing on the impact of the same to its customers with some lag. The ratings also factor in the company's capacity expansion exercise to add a Class-B line at its existing plant to cater to M&M's additional requirements. ICRA would continue to monitor progress on this front, including how quickly it is able to ramp-up the new line with minimal impact on its profitability and return metrics.

The Stable outlook on the long-term reflects ICRA's opinion that the company will continue to benefit from its strong parentage and the established track record of its operations and maintain its comfortable financial risk profile over the medium term.

Key rating drivers and their description

Credit strengths

Strong parentage - MASPL was set up as a JV among MAL (holding a 75.5% stake) and Mitsui (with a 24.5% stake each). Being a part of the M&M Group, MASPL has an assured customer in M&M. The company also has ready access to CSGT International Corporation customers from the auto sector. CSGT enjoys established relationships with many large OEMs, which in turn, gives

MASPL access to new customers. MASPL also gains from the financial flexibility as part of the Mahindra Group, with an additional source of liquidity in the form of MAL, in case of any temporary cash flow mismatches.

Comfortable capital structure and healthy debt-protection metrics – MASPL's total debt outstanding as on March 31, 2024 is Rs. 120.4 crore (excluding lease liability), comprising of term loan of Rs. 54.7 crore and working capital of Rs. 65.7 crore. The company also reported lease liability of Rs. 38.9 crore as on March 31, 2024 for the plant in Chakkan, Pune it has taken on lease for the Class B line. MASPL's gearing stood at 0.9 times as on March 31, 2024. Despite increase in debt levels the company's debt-protection metrics remain robust. Total Debt/ OPBDITA stood at 2.0 times as on March 31, 2024 and the company reported interest coverage ratio of 8.8 times in FY2024. Despite some expected addition in long-term debt levels for the capex planned and increased working capital borrowing to support the increased scale of operations, MASPL is expected to continue to report healthy credit metrics supported by its healthy performance and strong financial support from holding company MAL.

Location-specific advantage - MASPL has set up its steel blanking facility at Chakan near Pune to meet the demand for steel blanks, profiles and trapezoids from automobile manufacturers located in the nearby region. Further, the company has also set up a progressive stamping line at its Chakan plant to cater to the automobile manufacturers of OEMs located in the region. The strategic location results in lower freight cost, thereby improving its profitability.

Credit challenges

Susceptibility to cyclicality in end-user industry - Given the high dependence on the automobile industry, the company's operations remain susceptible to the cyclical downturns in the automobile industry, which can also render its RoCE as volatile. This was evident in its performance over the past couple of fiscals, wherein revenues declined by 30% and 23% in FY2021 and FY2020, respectively, followed by robust growth of 265% in FY2022, in line with increased demand from the end-user industry and increase in steel prices, which moderated to 93% in FY2023 and 46% in FY2024.

High customer concentration risk – MASPL's customer base comprises auto OEMs in and around the Chakan area, including M&M and other Mahindra Group companies. M&M and other Mahindra Group companies are the major customers of MASPL, accounting for ~90% of total sales (either directly or through ancillaries). High customer concentration exposes MASPL's margins to the changes in customer preferences. Nevertheless, the high share of business with M&M, catering to a large part of the OEM's steel requirements, and the improving market position of M&M in the domestic PV market, offers comfort.

Vulnerable to commodity price and forex risks – The basic raw material for the company is steel, and as such its revenues and margins remain exposed to fluctuations in steel prices to a large extent. Additionally, the company started importing 25-30% of its raw material requirement from FY2022, in line with changing preferences in the automotive industry, while its entire revenue came from the domestic market. In the absence of a natural hedge, the company's operations remain exposed to forex risks. Nevertheless, the company's practices of entering into procurement orders and hedging the same immediately on receipt of confirmed orders from customers, mitigate the risk to a large extent.

Liquidity position: Adequate

MASPL's liquidity position is likely to remain adequate, supported by cash flows of Rs. 40-70 crore generated from operations annually, and some quantum of cash balances (Rs. 3.9 crore as on March 31, 2024) and unutilised working capital lines of ~50% as on December 31, 2023. These are expected to remain sufficient in meeting its current debt repayment obligations, while capex requirements are likely to be met jointly through internal accruals and incremental external borrowings. Besides, funding support from MAL to meet any cash flow mismatches strengthens its liquidity.

Rating sensitivities

Positive factors – ICRA may upgrade MASPL's rating when the company is able to diversify and strengthen its business profile materially through new customer addition, while maintaining a comfortable financial risk profile and improving its liquidity position.

Negative factors – Pressure on MASPL's ratings could arise in case of a sustained and material weakening in its earnings, which exerts pressure on its credit profile and liquidity, such that DSCR remains below 1.5 times on a sustained basis. Deterioration in the credit profile of the parent company or weakening of linkages with the parent company could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Component suppliers
Parent/Group support	The ratings assigned to MASPL factor in the high likelihood of its parent, Mahindra Accelo Limited (MAL; rated [ICRA]AA+ (Stable)/A1+), extending financial support to it because of close business linkages between them. ICRA also expects MAL to be willing to extend financial support to MASPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on the standalone financial statements of MASPL

About the company

Incorporated in 2013, Mahindra Auto Steel Private Limited is a joint venture among Mahindra Accelo Limited (75.5% stake) and Mitsui & Co. Limited (24.5%). MASPL manufactures steel blanks, rectangles, trapezoids and profiles for automobile manufacturers and has a 54,000-MTPA steel blanking facility and a 52,500-MTPA Cut to Length and progressive stamping line, both at Chakan, Maharashtra, to cater to the automobile manufacturers in the region.

Key financial indicators (audited)

MASPL – Standalone	FY2022	FY2023	FY2024*
Operating income	248.7	479.3	700.7
PAT	15.5	28.2	44.6
OPBDIT/OI	13.2%	12.0%	11.4%
PAT/OI	6.2%	5.9%	6.4%
Total outside liabilities/Tangible net worth (times)	1.2	1.4	1.9
Total debt/OPBDIT (times)	1.4	2.1	2.0
Interest coverage (times)	10.5	6.9	8.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Unaudited numbers

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 Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 31, 2024	-	Mar 28, 2023	Feb 14, 2022
1	Term Loan	Long term	66.50	54.7	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Non-Fund-Based Limits	Short term	240.00	--	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Interchangeable*	Long term	(130.00)	--	[ICRA]AA - (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
4	Unallocated	Long term and short term	0.00	--	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund-Based Term Loan	Simple
Short-Term Non-Fund-Based Limits	Very Simple
Long-Term Fund Based Interchangeable	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 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 Term Loan**	FY2020-2021 & FY2024	8-9%	FY2025 & FY2030	66.50	**[ICRA]AA- (Stable)**
NA	**Short-Term Non-Fund-Based Limits**	NA	NA	NA	240.00	**[ICRA]A1+**
NA	**Long-Term Fund Based Interchangeable**	NA	NA	NA	(130.00)	**[ICRA]AA- (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

Corrigendum

Rationale dated May 31, 2024 has been revised with following changes as below:

In the rationale, in the about the company section, the capacities have been revised.

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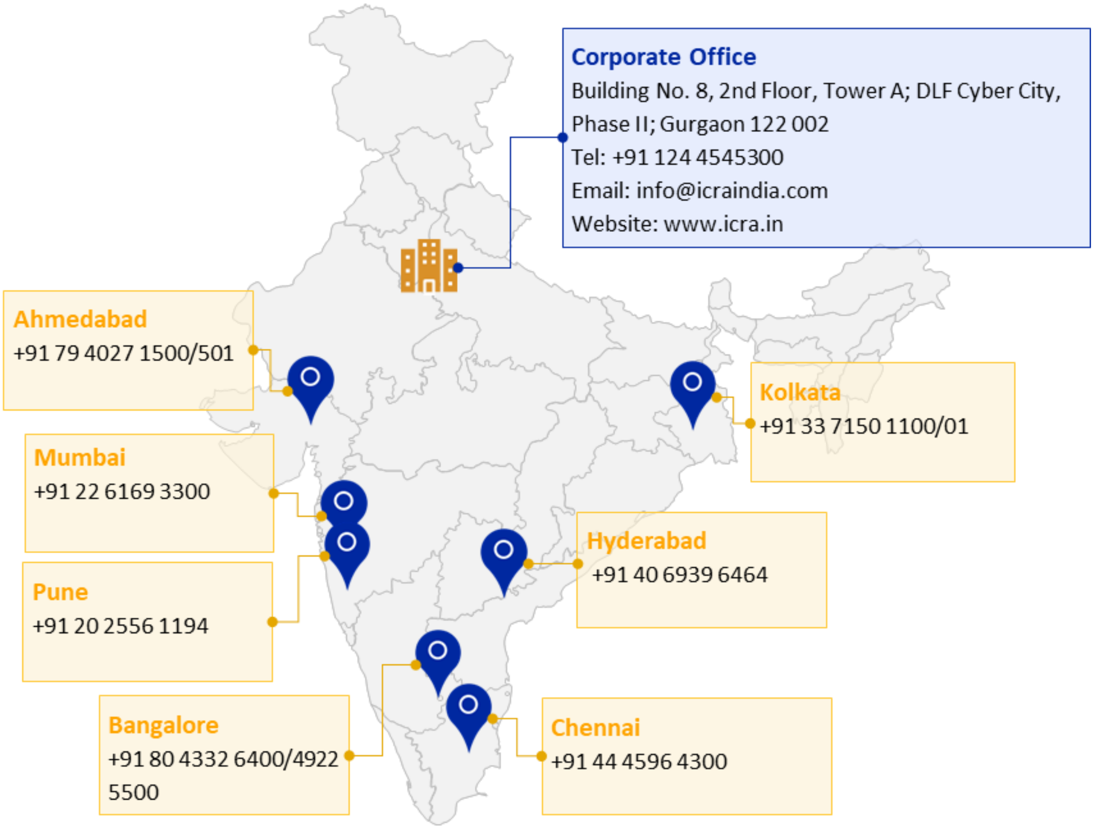

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