July 31, 2024

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	30.92	66.20	[ICRA]AA- (Stable); reaffirmed
Long-term - Fund based - Cash credit	30.00	30.00	[ICRA]AA- (Stable); reaffirmed
Short-term - Non fund - based limits	16.64	16.64	[ICRA]A1+; reaffirmed
Long term/ Short-term - Unallocated	102.44	67.16	[ICRA]AA- (Stable)/ [ICRA] A1+; reaffirmed
Total bank loan limits	**180.00**	**180.00**	
Commercial paper	**15.00**	**15.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings on the bank lines of Munjal Auto Industries Limited (MAIL) considers the expectation that its credit profile will remain supported by a strong business profile for the standalone operations. This is characterised by its key supplier status for exhaust system components, such as mufflers, to Hero Moto Corp Limited (HMCL; rated [ICRA]AAA(Stable)/ [ICRA]A1+), and a sound financial profile, as reflected by healthy debt protection metrics and adequate liquidity. MAIL's consolidated profile is further strengthened by the improving performance of its subsidiary, Indutch Composites Technology Private Limited (INDUTCH; rated [ICRA]A- (Stable) / [ICRA]A2+), due to effective executions of its orders. The consolidated profile is expected to remain stable, supported by gradually improving demand for the two-wheeler (2W) segment and strong revenue visibility for its subsidiary, backed by a robust order book, while maintaining a conservative capital structure and adequate liquidity.

The ratings are, however, constrained by MAIL's high dependence on HMCL and the Indian 2W industry for its cash flow generation. Although the healthy growth at INDUTCH will allow MAIL to diversify into the non-automotive sector, the subsidiary's funding requirements are expected to persist, and its ability to improve and sustain healthy margins remains crucial for the overall consolidated profile. Also, MAIL's ability to diversify its product profile to reduce reliance on mufflers will become increasingly important over the medium term, as the rise in popularity of 2W electric vehicles (EVs) could pose a threat to the company's conventional business.

The Stable outlook on the long-term rating reflects ICRA's view that MAIL's credit profile will be supported by a favourable demand for its products and strong business profile, backed by an extensive track record of operations, established relationship with HMCL and commitment to conservative financial policies. Moreover, the expected ramp-up in INDUTCH's sales volumes would further lend stability to the overall consolidated credit profile.

Key rating drivers and their description

Credit strengths

Established relationship with HMCL and its strong market share in domestic 2W industry augur well for MAIL – MAIL has established a strong relation with HMCL (~31% market share[1] in domestic 2W industry). This relationship is highlighted by MAIL's significant business share (~90%) with HMCL over the years. MAIL's volume growth has largely mirrored HMCL's volume sales, with MAIL reporting stable volumes in FY2024, consistent with HMCL's performance. However, MAIL experienced a

[1] As per the Society of Indian Automobile Manufacturers (SIAM)

decline in revenue in FY2023 and FY2024 due to decreased muffler prices. Going forward, muffler volumes are expected to grow in line with 2W industry volumes in the near to medium term.

Strong revenue visibility in MAIL's subsidiary INDUTCH – MAIL's subsidiary, INDUTCH, has a robust order book, exceeding Rs. 1,600 crore as of April 2024, to be executed over FY2025 and FY2026. This is due to medium-to-long-term offtake agreements with key clients such as Nordex, Enercon and Senvion India, lending healthy medium-term revenue visibility to the entity.

Adequate liquidity profile and modest external debt – MAIL had a consolidated debt of ~Rs. 276 crore as on March 31, 2024, which includes ~Rs. 176 crore of lease liabilities and ~Rs. 100 crore of external debt. MAIL maintained 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 liquid investments, the consolidated net debt[2]/OPBITDA improved to 0.8 times (previous year 1.7 times). While MAIL's cash flow generation from operations is expected to be stable, the pace of INDUTCH's ramp-up will be crucial for the improvement at the consolidated level.

Credit challenges

High dependence on a single customer and product segment; expected to improve as the subsidiary scales up – MAIL derives 90-95% of its standalone revenues from the muffler assemblies for its key client, HMCL. Due to the assembly nature of operations, operating margins are low, which have also been affected by declining realisations. The contribution from new product segments and other OEMs remains negligible, resulting in modest return metrics, such as RoCE. Further, MAIL's heavy reliance on HMCL and the 2W industry makes its volume performance vulnerable to HMCL's performance in the 2W category and overall 2W demand. However, MAIL's key supplier status and HMCL's market leadership position mitigate the client concentration risk to some extent. In addition, INDUTCH's scale-up is likely to mitigate the client concentration risk and improve MAIL's return metrics in the medium term.

Expected increase in INDUTCH's working capital requirement – INDUTCH derives ~25-30% of its revenue from Enercon. At present, Enercon provides substantial working capital support through customer advances (to purchase raw materials) via the escrow mechanism. However, ICRA understands that due to a change in arrangement terms, INDUTCH is likely to manage the working capital requirements independently from October 2024. Although INDUTCH's credit limit was increased in March 2024 to support growing working capital requirements, maintaining incremental working capital requirements at reasonable levels to ensure adequate liquidity will remain a key rating monitorable.

Increasing electrification in the 2W industry threatens mufflers as a product in the long run – As HMCL is primarily focused on the motorcycle segment, the company could experience a significant impact from electric 2Ws (e-2W) over the medium and long term, as this segment could exert pressure on the traditional 2W business. MAIL's diversification efforts include investments in the composites product space through INDUTCH, which has growth potential not only in the renewable energy space but also as a potential supplier of composite parts for 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. 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 INDUTCH, dependence on HMCL's revenue share is expected to decrease. Since MAIL's revenues primarily come from exhaust systems or mufflers, the company is exposed to climate transition risks due to tightening emission control requirements. However, 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 encounters 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

[2] *Net debt= Total debt minus investments*

did 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 e-2W development, especially in the scooter segment. As the company has a significant dependence on the muffler business, the adoption of e2Ws could impact its business prospects in the long term. The investments in the composites space through INDUTCH lend some diversity in business.

Liquidity position: Adequate

MAIL's liquidity position is **adequate**, supported by investments (largely mutual funds) of Rs. 176 crore and unutilised working capital limits of Rs. 40-50 crore on a consolidated basis, as of June 2024. Going forward, the company has moderate debt repayment obligations (Rs. 15-20 crore per annum at a consolidated level). However, its cash accruals (~Rs. 90-100 crore annually) are expected to be sufficient to meet the obligations. On a consolidated basis, MAIL has a planned capex of ~Rs. 60-70 crore for FY2025, for which a term loan of ~Rs. 62 crore is already sanctioned.

Rating sensitivities

Positive factors – Any sustained improvement in the company's operational profile through material diversification of its customer and product profiles could trigger ratings upgrade.

Negative factors – The ratings could be downgraded by a significant deterioration in the company's standalone operational profile due to a reduced share of business and/or a lower-than-expected ramp-up in the subsidiary, leading to a material weakness in margins/cash accruals at the consolidated level. A specific credit metric that could lead to ratings downgrade is net debt/OPBDITA at the consolidated level over 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statements of MAIL, including its subsidiaries, as per details given in Annexure II

About the company

MAIL is a leading auto component manufacturing company in India producing exhaust systems (or mufflers), spoke rims, steel wheel rims, passenger vehicles (PVs) fuel tanks, Body in White (BIW) parts and other automotive assemblies. MAIL has a 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 a sizeable share of business (SoB), as one out of two preferred vendors. MAIL fulfils about 85-90% of HMCL's muffler requirement. 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 (~68% subsidiary of MAIL)

In FY2019, MAIL acquired a ~68% stake in INDUTCH for a total consideration of ~Rs. 30.0 crore and became its holding company. INDUTCH 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). INDUTCH has a reputed clientele, including some large global windmill manufacturers – Nordex SE, Vestas, LM Windpower, Enercon Gmbh and Senvion.

Key financial indicators (audited/Result)

MAIL Consolidated	FY2023	FY2024*
Operating income	1,990.8	1,881.8
PAT	51.6	38.0
OPBDIT/OI	4.9%	6.4%
PAT/OI	2.6%	2.0%
Total outside liabilities/Tangible net worth (times)	2.2	1.9
Total debt/OPBDIT (times)	2.9	2.3
Interest coverage (times)	3.6	4.4

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore, *limited audited results*
Note: All financial ratios as per ICRA's calculation

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 31, 2024	Jul 20, 2023	Oct 31, 2022	Oct 07, 2021
1	**Term Loan**	Long Term	66.20	[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	**Non-Fund based**	Short Term	16.64	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	**Unallocated**	Long Term / Short Term	67.16	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	**Commercial Paper**	Short Term	15.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	**Fund based limits**	Short Term	-	-	-	[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: 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 loans	Apr-2019	7.20%	June -2029	66.20	[ICRA]AA- (Stable)
NA	Non-fund based	NA	NA	NA	16.64	[ICRA]A1+
NA	Unallocated	NA	NA	NA	67.16	[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	NA**	Full Consolidation
Indutch Composites Technology Private Limited	68.0%	Full Consolidation

*Source: MAIL Annual report, *as on March 31, 2024, **parent entity*

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About ICRA Limited:

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