January 3, 2025

MSL Driveline Systems 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/ Short-term Fund-based	65.00	65.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Long-term/ Short-term Fund-based/Non-fund Based	50.00	50.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Long-term Fund based – Term Loan	12.70	40.00	[ICRA]A+ (Stable); reaffirmed / assigned for enhanced amount
Short-term Non-fund Based	5.00	5.00	[ICRA]A1; reaffirmed
Total	**132.70**	**160.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for MSL Driveline Systems Limited (MSL) continues to consider the extensive experience of its promoters in the automotive / auto ancillary business, along with its established business relationships with leading domestic original equipment manufacturers (OEMs). The ratings also factor in the reputation of MSL in the commercial vehicle (CV) segment over the years, which has enabled diversification of its revenues, beyond the traditional utility vehicle (UV) segment. Further, the ratings derive comfort from the company's healthy capital structure, marked by an overall gearing of 0.3 times as on March 31, 2024 (0.2 times as on September 30, 2024), and robust credit metrics with interest coverage and DSCR of 16.0 times and 7.6 times, respectively, in FY2024.

The ratings, however, remain constrained by factors such as dependence on the rear-wheel and 4X4 drive UV segment, which at present is witnessing a shift in preference towards front-wheel drives along with susceptibility of profitability to raw material prices and foreign exchange (forex) fluctuations. However, the company's steps to expand its presence in the heavy commercial vehicle (HCV) segment (which would continue to be a rear-wheel drive market) and hedging mechanism for the forex exposure through forward contracts, mitigate these risks to some extent. While MSL's business profile also remains exposed to the ongoing electrification in the automotive sector, with few of its product offerings facing obsolescence risk due to automotive electrification, some comfort is drawn from the slower pace of electrification in its key automotive segments of sport utility vehicles (SUVs) and CVs. While ICRA notes the muted revenue growth momentum in the near term for MSL due to stagnation in the domestic passenger vehicle (PV) and CV segments, comfort is drawn from the increasing penetration of UVs within the PV segment, which is likely to augur well for the company's business prospects in the medium term. ICRA also notes the active efforts undertaken by MSL to develop a product range for front-wheel drive vehicles, which should support its revenue growth momentum over the medium-to-long term. ICRA also notes the recent, sizeable cash outflow in the form of share buybacks (around Rs. 47 crore in FY2024 and Rs. 38 crore in YTD FY2025). These share buybacks and dividend payouts were being undertaken to help the promoters fund their debt repayment obligation towards the Rs. 115-crore loan availed in December 2016 for the purchase of a 37.5% stake in MSL from Mahindra & Mahindra Limited (M&M; rated [ICRA]AAA(Stable)/[ICRA]A1+). As the said debt has entirely been repaid by promoters in December 2024, ICRA expects some moderation in the quantum of dividend payouts and share buybacks, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters and the established track record of its operations, along with healthy prospects of the automobile industry in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in auto ancillary business – The promoters have more than two decades of experience in the auto components industry. Such vast experience of its promoters has provided MSL with access to international clients, product innovation, and thus, an increased share of business with OEMs.

Established business relationships with major OEMs in domestic UV and CV markets – MSL is a tier-I supplier for many OEMs in India, which include M&M, Ashok Leyland Limited (ALL; rated [ICRA]AA+(Stable)/[ICRA] A1+), Tata Motors Limited (TML; rated [ICRA]AA+(Stable)/[ICRA]A1+), VE Commercial Vehicles India Limited (VECV; rated [ICRA]AA+(Stable)/[ICRA]A1+) and Force Motors Limited, among others. Strong relationships with these OEMs have supported the company in pursuing additional business from the OEMs over the years, thus supporting MSL's overall growth prospects.

Comfortable capital structure and coverage indicators – MSL's capital structure and credit metrics have remained healthy, supported by healthy accretion to net worth and limited debt-funded capex, as visible from a gearing of 0.3 times, interest coverage of 16.0 times and DSCR of 7.6 times in FY2024, as of March 31, 2024. Limited debt repayment obligations, coupled with moderate quantum of capital expenditure (capex) outlay over the near term, are expected to continue providing comfort to the capital structure, going forward.

Credit challenges

Sizeable cash outflow in the form of share buybacks and dividends – MSL has undertaken a series of share buybacks and dividend payouts of around Rs. 214 crore (including taxes) from FY2020. The same were undertaken to help the promoters fund their debt repayment obligation towards the Rs. 115-crore loan (which has now entirely been repaid, with last repayment in December 2024) availed in December 2016 for the purchase of a 37.5% stake in MSL from M&M. Sizeable cash outflows in the form of share buybacks and dividends restrict MSL's overall cash inflows, despite its healthy profits. As the said debt has entirely been repaid as on date, ICRA expects some moderation in the quantum of dividend payouts and share buybacks, going forward. Nevertheless, cash outflow in the form of dividend payouts and share buybacks would be monitored, going forward.

Profitability susceptible to raw material price fluctuations and foreign currency movements – MSL has a relatively lower bargaining power with its customers, as evident from its limited ability to pass on the increase in raw material prices to its customers and with immediate effect. Typically, the company can pass on the price increase partially with a time lag of two to three months, which impacts its profitability. While the company has renegotiated with OEMs for passing on the movements in raw material costs, there are limitations on passing on the increase in conversion cost. Additionally, it typically derives about 15-20% of its revenues from exports, which also subjects it to exchange rate risks. The risk is, however, partially mitigated by a natural hedge through imports, which contributed ~23-24% to its total purchases in FY2024 and H1 FY2025. To further mitigate the risk, the company undertakes hedging through forward covers for a part of its overall exposure. While depreciating INR is beneficial for MSL's export prospects, the muted demand for the class 6 and class 8 trucks in the North American market is impacting the export sales at present.

Relatively higher dependence on rear-wheel and 4x4 UV segments – MSL's products primarily cater to the rear-wheel and 4x4 UVs. However, the UV segment is witnessing a shift in preference towards front-wheel drive, which can impact MSL's growth prospects over the long term. However, the company's efforts to diversify into the CV segment, which would continue to be a rear-wheel driven segment, offer comfort. While the ongoing electrification in the automotive sector may expose MSL to product obsolescence risk for some of its products, the risk is mitigated to an extent by— (i) relatively slower pace of electrification in the SUV and CV segments, which are its key automotive segments, and (ii) its active efforts to offer technology-agnostic products (i.e., products required for internal combustion engine [ICE] vehicles as well as electric vehicles [EVs]). MSL's active efforts to expand its product portfolio to offer transmission components for front-wheel drive vehicles are also expected to support its revenue growth momentum in the longer run.

Liquidity position: Adequate

MSL's liquidity is **adequate**, supported by annual cash flows of Rs. 40-50 crore from operations. It is further supported by undrawn working capital limits of Rs. 81.2 crore and free cash and bank balances of Rs. 10.9 crore as on September 30, 2024. The company maintains a comfortable buffer of Rs. 70-80 crore in the form of undrawn working capital lines, lending support to the liquidity profile. The capex for FY2025 is expected to remain moderate at Rs. 12-13 crore, which will be primarily funded through internal accruals. The debt repayment obligations remain limited over the near term at Rs. 5-10 crore per annum. Any material cash outflow in the form of dividend payout or share buyback, which could impact the liquidity position of the company, remains a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade MSL's ratings if there is a significant improvement in scale of operations, along with profitability and diversification in end-user industries.

Negative factors – ICRA could downgrade MSL's ratings in case of any sustained deterioration in its debt coverage indicators and liquidity profile. Higher-than-anticipated dividend payout or share buyback leading to weakening of liquidity position on a sustained basis, may also lead to ratings downgrade. Specific credit metrics that could lead to downgrade of MSL's ratings include Total Debt/ OPBITDA exceeding 1.5 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	The ratings are based on the standalone financials of MSL Driveline Systems Limited.

About the company

MSL (the erstwhile Mahindra Sona Limited) began operations in 1979 from a Nashik-based facility (Maharashtra), as a part of the joint venture (JV), Mahindra Spicer Limited, between M&M and Dana Corporation, USA. In 1984, Mahindra Spicer Limited was merged with M&M, and became the automotive component unit of M&M. In March 1995, M&M and Sona Koyo Steering Systems Limited (Sona Koyo) formed the JV, Mahindra Sona Limited (Mahindra Sona). The assets of the automotive component unit of M&M were transferred to Mahindra Sona for a consideration of Rs. 14.0 crore. Till December 2016, the M&M Group and the Sona Group held a 37.5% stake each, with the balance 25% remaining with strategic investors. On December 16, 2016, MSona Automotive Components Private Limited (MSona) acquired a 37.5% stake of M&M in Mahindra Sona, and subsequently the company was renamed as MSL Driveline Systems Limited in March 2017. At present, the promoters hold a 75% stake in MSL, with the rest being held by strategic investors.

The company is involved in designing and manufacturing a wide range of auto ancillary products, such as propeller shafts, clutches, universal joint kits, steering joints, and axle shafts for CVs and UVs. While domestic OEMs are the key customers for MSL, it also enjoys a presence in a few overseas markets, such as the US.

Key financial indicators

MSL	FY2023 Audited	FY2024 Audited	H1 FY2025 Provisional
Operating Income (Rs. crore)	787.6	824.7	407.3
PAT (Rs. crore)	65.4	58.3	27.9
OPBDIT/OI (%)	12.4%	11.4%	9.3%
PAT/OI (%)	8.3%	7.1%	6.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	0.6
Total Debt/OPBDIT (times)	0.8	0.8	0.5
Interest Coverage (times)	17.7	16.0	21.1

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

Source: MSL, ICRA Research

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
				Jan 3, 2025	9-Jan-24	15-Nov-22	4-Oct-21
1	Long-term / Short-term, Fund-based Bank Facilities	Long-term/Short-term	65.00	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1
2	Long-term / Short-term, Fund-based /Non-fund Based Bank Facilities	Long-term/Short-term	50.00	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1
3	Long-term Fund based – Term loan	Long-term	40.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Short-term, Non-fund Based Bank Facilities	Short-term	5.00	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term, Fund-based Bank Facilities	Simple
Long-term / Short-term, Fund-based /Non-fund Based Bank Facilities	Simple
Long-term Fund based – Term loan	Simple
Short-term, Non-fund Based Bank Facilities	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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term / Short-term, Fund-based Bank Facilities	NA	NA	NA	65.00	[ICRA]A+(Stable)/ [ICRA]A1
NA	Long-term / Short-term, Fund-based /Non-fund Based Bank Facilities	NA	NA	NA	50.00	[ICRA]A+(Stable)/ [ICRA]A1
NA	Long-term Fund based – Term loan	September 2024	NA	September 2029	40.00	[ICRA]A+(Stable)
NA	Short-term, Non-fund Based Bank Facilities	NA	NA	NA	5.00	[ICRA]A1

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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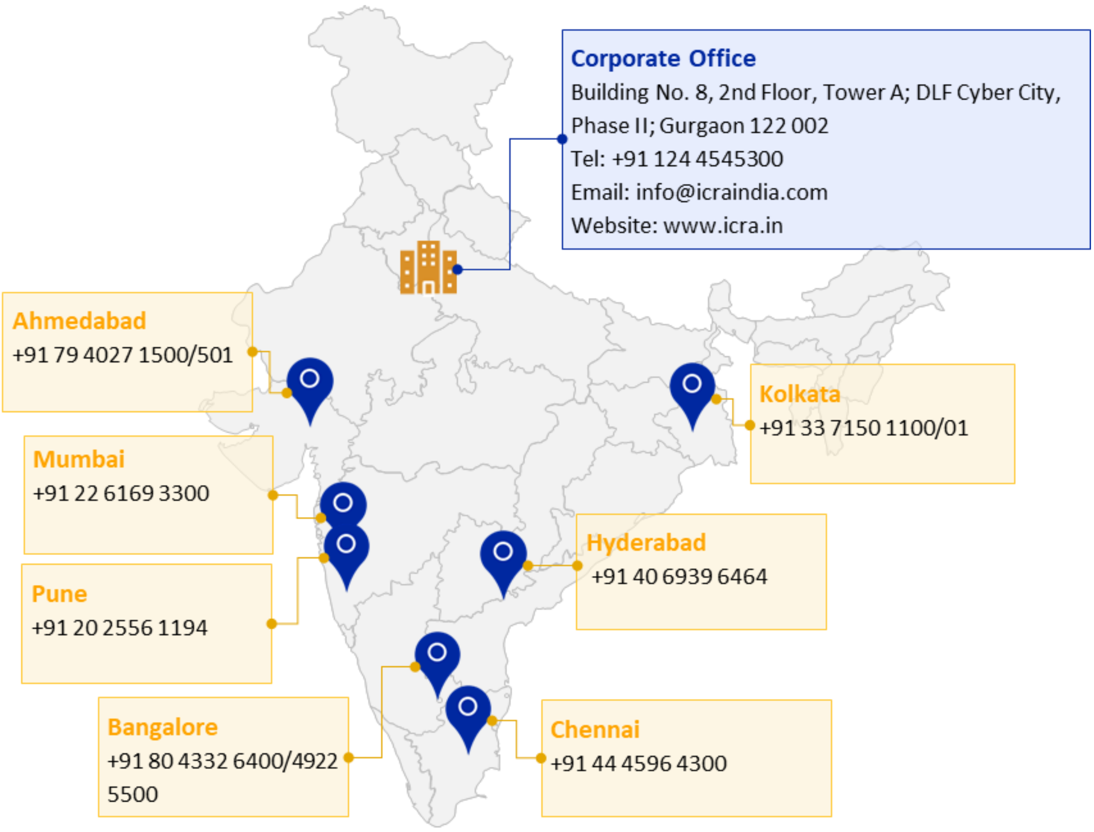

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