

Fritzmeier Motherson Cabin Engineering Limited

August 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	7.20	7.20	[ICRA]A (Stable); Upgraded from [ICRA]BBB+ (Stable)
Cash Credit	13.00	13.00	[ICRA]A (Stable); Upgraded from [ICRA]BBB+ (Stable)
Short Term Fund Based Limits	2.00	2.00	[ICRA]A1; Upgraded from [ICRA]A2+
Short Term Interchangeable**	(6.00)	(6.00)	[ICRA]A1; Upgraded from [ICRA]A2+
Unallocated	13.00	13.00	[ICRA]A (Stable); Upgraded from [ICRA]BBB+ (Stable)
Total	35.20	35.20	

*Instrument details are provided in Annexure-1

**Sub-limit of cash-credit facility

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]BBB+ (pronounced ICRA triple B plus) and the short-term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 35.20-crore¹ bank facilities of Fritzmeier Motherson Cabin Engineering Limited (FMCEL)². The outlook for the long-term rating is Stable.

Rationale

The rating upgrade takes into consideration FMCEL's improving business prospects supported by healthy traction from the mining and construction equipment (MCE) as well as tractor sectors with a strong business pipeline supported by new orders secured from existing and new customer original equipment manufacturers (OEMs). The company reported a robust growth of 41% in its revenues in FY2018, supported by improved demand from its existing customers including Mahindra & Mahindra Limited (M&M), Caterpillar India Private Limited (Caterpillar) and John Deere India (JD) for both domestic and export markets. Furthermore, FMCEL is likely to maintain a healthy growth trajectory, going forward, aided by business expansion initiatives with existing and new customers leading to increasing share of business over the next two years.

The rating upgrade also factors in the improvement in FMCEL's financial risk profile, over the recent years, with expansion of profit margins and strengthening of credit metrics. Supported by scale up in volume and better distribution of fixed overheads, localisation initiatives of the company and improved capacity utilisation levels, FMCEL's profitability and return indicators have reported a healthy improvement over the past two years. Its operating margins expanded to 16.7% in FY2018 from 13.5% in FY2016, and the ROCE improved to 15.8% from 6.0% during the same period. The company also maintains a comfortable capital structure and healthy credit metrics, with improved cash flow generation over the recent years having kept the dependence on external borrowings low. As on FY2018, its TD/OPBDIT and Interest cover stood at 0.3 and 15.3 times. In view of a favourable outlook for the construction equipment industry in the near-

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

term and limited investment requirement, ICRA expects FMCEL to generate healthy cash flows and maintain strong credit metrics.

While arriving at the ratings of FMCEL, ICRA also considers its strong parentage, being a 50:50 joint venture (JV) between Samvardhana Motherson International Limited (SMIL, rated [ICRA]AA- (Positive)) and Fritzmeier Holding GmbH (Fritzmeier, part of the Fritzmeier Group, Germany). The company derives benefits from its parents in the form of product development capabilities and technical knowledge, stronger customer connect and financial flexibility. With the help of its foreign parent, the company has been able to develop technologically superior cabins with enhanced safety features, which augurs well for maintaining its share of business with customers, especially in light of a tightening safety and regulatory environment in India. Additionally, Fritzmeier's relationship with major global MCE OEMs has also supported FMCEL in gaining business in India.

The ratings also factor in the modest scale of operations of the company, by virtue of supplies being limited to a niche product and automotive segment, the cyclical nature of the end-user industry with limited customer and product diversity. However, ICRA expects its ongoing business expansion initiatives to mitigate these concerns partially. Additionally, the company remains exposed to foreign exchange risk as 38% of its raw material requirement at present are sourced from Europe. FMCEL's significant import content and minimum order quantities mandated by vendors also results in a higher working capital intensity in the business as significant amount of the imported raw material gets maintained as inventory for a period of few months.

Going forward, the ratings would remain dependent on the company's ability to scale up its operations in a profitable manner, on the back of its business expansion initiatives with existing and new customers. ICRA would also continue to monitor developments with respect to regulatory changes in enhancing safety requirements for cabins in India, as the same would have considerable impact on FMCEL's business prospects. Hence, these would remain key rating sensitivities and would be monitored going forward.

Outlook: Stable

ICRA believes FMCEL's business prospects remain healthy over the near term, supported by traction from the domestic MCE and tractor sectors and supplies for multiple new orders scheduled to scale up. With limited capex requirements over the medium term and continued healthy cash flow generation, the company is likely to maintain its healthy financial risk profile going forward.

The outlook could be revised to Negative in case of significant weakening of credit metrics, due to increased competitive intensity in the industry, or in case of a large debt-funded capex undertaken by the company.

The outlook could be revised to Positive in case of favourable regulatory developments in terms of cabin safety requirements, which enhances the company's business prospects.

Key rating drivers

Credit strengths

Strong parentage by virtue of being a joint venture between SMIL and Fritzmeier, Germany gives access to technical know-how and global OE customer base – Being a 50:50 JV between the Motherson Group, India and Fritzmeier Group, Germany, FMCEL has been able to benefit in the form of product development capabilities and technical knowledge, stronger customer connect and financial flexibility.

Well-established relationships with customers supported by its German parentage and proven design and development capabilities – The strong parentage of Fritzmeier Holding GmbH has helped the company design technologically superior cabins, which are on par with global standards, which augurs well for its business development with global OEMs. Supported by its proven design and development capabilities, FMCEL has been able to garner superior margins on its products vis-à-vis its peers and has forged strong relationships with its customers, which are large well-established players in the global MCE and agricultural equipment industries, including the likes of Caterpillar, Kobelco, Komatsu, M&M and John Deere.

Diversified business profile with presence in construction equipment and tractor sectors – FMCEL derived about 40% of its FY2018 revenues from the supply of tractor cabins, while the major proportion of the remaining sales was from the supply of cabins for various product segments in the MCE industry, including dump trucks, excavators and wheeled loaders. By virtue of its presence across both the industries, revenues remain protected to a large extent from cyclicity in either industry, while benefiting from up-cycles in each.

Strong business pipeline supported by customer base expansion and new product development initiatives likely to support revenue growth over the medium term – Supported by its business expansion initiatives with the existing and new customers, FMCEL has been able to expand its scope of supplies with the existing customers to include new models and additional products and also expand its customer portfolio to include multiple new OEMs. Supplies for these new orders commencing and scaling up over the next couple of years is expected to support the revenue growth and diversification of the company over the medium term.

Improvement in financial risk profile over past two years, with expanding profit margins, reduction in debt levels and strengthening of credit metrics – Supported by improving capacity utilisation, localisation efforts of the company and better distribution of fixed overheads, FMCEL has reported strengthening of its profitability metrics over the past few years, with the OPM expanding to 16.7% in FY2018 from 13.5% in FY2016, and the ROCE to 15.8% from 6.0% during the same period. Additionally, with the improved cash flow generation, there has been reduced dependence on external borrowings, which have also supported the improvement in its credit metrics.

Credit challenges

Modest scale of operations because of presence in a niche product category – FMCEL is a relatively small player in the domestic auto-ancillary space, with revenues of only Rs. 80 crore in FY2018, despite a healthy YoY growth of 41%. This is primarily due to its scope of operations being limited to a niche product category, viz. supply of cabins to high-end CE and agricultural equipment.

Significant import content results in earnings being vulnerable to fluctuation in foreign exchange rates – The company imports a significant proportion of its raw material requirement, with the import content being 38% in FY2018, due to the stringent quality and safety requirements of its products, which exposes its earnings to variation in forex rates.

High working capital intensity owing to minimum order quantity requirement for imported raw materials – The high import content for FMCEL and the minimum order quantity requirements for these components, results in imported raw material stock being maintained for a few months, which increases the working capital intensity of its operations. However, this is likely to improve going forward as the company scales up its operations.

Analytical approach: For arriving at the ratings, ICRA has taken into consideration the operational profile and financials of the company on a standalone basis and factored in the implicit support from the parent entities. ICRA has also applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company

FMCEL is a JV between Fritzmeier Holding GmbH (a Fritzmeier Group company) and SMIL (a Motherson Group company). The company was set up to manufacture cabin engineering products for earth-moving equipment for OEMs based in India. It caters to well-established OEMs in the construction equipment and agricultural equipment space including Caterpillar, Komatsu, Kobelco, John Deere and M&M, both for their domestic as well as export requirements. The company's facility, with an installed capacity of 7,500 cabins per year, is located in Kancheepuram near Chennai.

Fritzmeier Holding GmbH: Fritzmeier is a Germany-based multi-national entity involved in manufacturing cabin engineering products for construction, mining, heavy bulk material handling, agricultural engineering machines and equipment in over 10 countries. The company has a well-reputed customer profile including players like Caterpillar, JCB, Komatsu, Terex, Hitachi, Liebherr, New Holland and Chase among others. As per its business model, it works through various alliance partners outside Europe-viz. Angus Palm in US, Ninyomia in Japan and Ethos in Brazil.

Samvardhana Motherson International Limited: SMIL is the principal holding company of the Samvardhana Motherson Group. SMIL has investments in multiple entities including Motherson Sumi Systems Limited (MSSL, rated [ICRA]AA(Positive)/A1+), a leading manufacturer of wiring harness and plastic components for passenger cars and other Group companies. SMIL acts as the central corporate body for managing the Group companies and for their overall coordination. It is also the main vehicle for exploring new business areas and forming new JVs of the Group in diversified areas.

Key financial indicators – standalone

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	57.0	80.2
PAT (Rs. crore)	2.7	8.4
OPBDIT/OI (%)	16.4%	16.7%
RoCE (%)	8.5%	15.8%
Total Debt/TNW (times)	0.2	0.1
Total Debt/OPBDIT (times)	1.3	0.3
Interest Coverage (times)	4.4	15.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating Aug 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2016 Feb 2016	Date & Rating in FY2015 Jan 2015	
1	Cash Credit	Long Term	7.20	2.3	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	13.00	1.5	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Short term fund based	Short Term	2.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A3	[ICRA]A3
4	Short term interchangeable**	Short Term	(6.00)	NA	[ICRA]A1	[ICRA]A2+	[ICRA]A3	-
5	Unallocated	Long Term	13.00	NA	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
6	Short Term Non Fund Based Limits	Short Term	-	-	-	-	[ICRA]A3	[ICRA]A3

*As on March 31, 2018

**Sub-limit of cash-credit facility

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	FY2017	NA	NA	7.20	[ICRA]A (Stable)
NA	Term Loan	FY2017	MCLR linked rate	FY2021	13.00	[ICRA]A (Stable)
NA	Short term fund based	NA	NA	NA	2.00	[ICRA]A1
NA	Short term interchangeable**	NA	NA	NA	(6.00)	[ICRA]A1
NA	Unallocated	NA	NA	NA	13.00	[ICRA]A (Stable)

Source: FritzmeierMotherson Cabin Engineering Limited

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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.

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