

## Mahindra Intertrade Limited

October 26, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	30.0	30.0	[ICRA]AA+(Stable); reaffirmed
Short-term, Non-fund Based Limits	370.0	370.0	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>400.0</b>	<b>400.0</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) assigned for the Rs. 30.0-crore fund-based limits of Mahindra Intertrade Limited (MIL). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned for the Rs. 370.0-crore non-fund based limits of MIL. The outlook on the long-term rating is Stable.

### Rationale

The ratings reaffirmation reflects MIL's strong financial, operational and managerial linkages with its ultimate parent company—Mahindra & Mahindra Limited (M&M; rated [ICRA]AAA(Stable)/[ICRA]A1+) and its strategic importance to M&M's automotive division as the captive supplier of steel blanks. Besides the automotive segment, the company also enjoys an established presence in the electrical (cold-rolled grain oriented or CRGO) steel processing segment, which witnessed a healthy uptick in sales volume in FY2018. The ratings continue to derive comfort from MIL's strong financial risk profile as evident from its debt-free status (on a standalone basis), healthy return indicators and strong liquidity position, underpinned by healthy cash and liquid investments.

The ratings, however, remain constrained by the competitive pressure in the steel processing industry, the moderate value-added nature of the business (resulting in modest operating profit margins), and MIL's exposure to cyclical end-markets (automotive and electrical segments). MIL's automotive segment had witnessed modest growth over the last two fiscals owing to headwinds being faced in M&M's utility vehicles (UV) business, though it is expected to report an improved performance over the near to medium term, led by M&M's proposed product launches. The company is also undertaking various initiatives to expand its product base in order to move up the value chain. These include setting up of a processing line for supply of purlins as well as setting up of a lamination line for expanding capacity in the electrical-steel segment. MIL has also entered into steel scrapping business through a 50:50 joint venture (JV) with MSTC Limited. The investments in these projects (which includes capital expenditure and equity commitments in JVs) are expected to be around Rs. 40 crore during FY2019, which are being funded through internal accruals and available cash and liquid investments. Despite these investments, ICRA expects MIL's liquidity to remain robust supported by healthy accruals.

### Outlook: Stable

ICRA expects MIL to continue to benefit from its linkages with the Mahindra Group. ICRA also expects MIL's credit profile to remain Stable over the medium term, supported by healthy cash accruals and available cash and liquid investments. The outlook may be revised to Positive if MIL reports substantial growth in its revenues and profitability, while

maintaining its comfortable financial profile. The outlook may be revised to a Negative if cash accruals are lower than expected, or if any major capital expenditure, or a stretch in the working capital cycle, weakens liquidity. Deterioration in the credit profile of the parent entity would also be a negative factor.

## Key rating drivers

### Credit strengths

**Strong parentage which lends financial flexibility** – MIL enjoys strong financial, operational and managerial linkages with M&M, by virtue of being its wholly-owned step-down subsidiary. MIL primarily operates as a captive steel service centre (SSC) for M&M's automotive business, wherein it converts hot rolled (HR)/ cold rolled (CR) steel coils into processed steel blanks for M&M's UVs and passenger cars. MIL's board of directors also includes senior personnel from Mahindra Group's executive board. By virtue of being a part of the Mahindra Group, MIL enjoys strong financial flexibility.

**Leading player in electrical steel processing segment in domestic market** – MIL has an established market position as well as strong relationships with companies in the home appliances and capital goods segments (particularly transformers). It is the leading supplier of processed CRGO steel for power transformers with close to 40% market share. MIL's revenues from the sale of CRGO steel witnessed a healthy 16% YoY increase in FY2018, led by a strong 47% uptick in sales volumes.

**Strong financial risk profile and liquidity** – Aided by healthy accruals, MIL has limited dependence on external financing and been operating as a debt-free company (on a standalone basis) since the past many years. The financial profile is adequately supported by its cash and liquid investments of Rs. 119.0 crore as on March 31, 2018. Despite the ongoing capex/ investment plans, MIL is expected to remain debt-free over the near term supported by the existing cash and bank balance, and healthy accruals every year.

### Credit challenges

**Business growth susceptible to cyclicity in automotive sector** – The company derives more than 60% of its revenues from the automotive sector, and hence its revenue growth remains susceptible to cyclicity inherent to the sector.

**Operating profit margins susceptible to competitive pressure in steel processing industry** – The company is engaged in steel processing, which is a highly competitive segment, thereby constraining its operating profit margins. Further, the moderate value-added nature of the business results in the company's modest operating profit margins.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Auto component manufacturers](#)

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

## About the company

Mahindra Intertrade Limited, a step-down wholly-owned subsidiary of M&M, was incorporated in 1978 as the Mahindra Group's trading arm to meet M&M's steel requirements in its automotive business. In 1993, the company entered the SSC business for meeting the requirements of M&M's automotive division. It further expanded its capacities in 2000 to diversify its business model by entering the electrical steel processing segment. In FY2016, M&M transferred its stake in

MIL to its other wholly-owned subsidiary, Mahindra Vehicle Manufacturers Limited (MVML); hence, M&M holds 100% stake in the company indirectly.

MIL operates through four business segments (SSC, technical business group (TBG), metals and ferrous alloys (MFA) and exports business group (EBG)), with bulk of the business being contributed by the SSC segment. It operates as a captive SSC for M&M's automotive business, wherein it converts HR/ CR steel coils into processed steel blanks for M&M's UVs and passenger cars. Besides meeting M&M's requirements, MIL also supplies lamination and core to the electrical segment, catering mainly to the consumer durables (i.e. white goods) and the transformer industries.

MIL has four subsidiaries, the key ones being Mahindra Steel Service Centre Limited (MSSCL, rated [ICRA]AA-(Stable)/[ICRA]A1+) and Mahindra Auto Steel Private Limited (MASPL, rated [ICRA]A+(Stable)/[ICRA]A1+). While MSSCL is engaged in the processing of automotive and electrical steel, MASPL manufactures steel blanks, rectangles, trapezoids and profiles for automobile manufacturers. MIL is also in a 50:50 JV, Mahindra MSTC Recycling Private Limited, which is engaged in the business of setting up of shredding plants and collection centres for the recycling of end-of-life (ELV) vehicles and ELV white goods. The JV is expected to commence operations in Q3 FY2019.

In FY2018, MIL (standalone) reported a profit after tax (PAT) of Rs. 62.3 crore on an operating income (OI) of Rs. 1,084.4 crore, against the PAT of Rs. 59.7 crore on an OI of Rs. 912.1 crore for FY2017.

### Key financial indicators (Standalone, audited)

	FY2017	FY2018
Operating Income (Rs. crore)	912.1	1,084.4
PAT (Rs. crore)	59.7	62.3
OPBDIT/ OI (%)	9.4%	8.6%
RoCE (%)	19.2%	19.1%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.1	0.0
Interest Coverage (times)	69.2	40.5

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress)*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Fund-based Limits	Long Term	30.0	-	October 2018 [ICRA]AA+ (Stable)	July 2017 [ICRA]AA+ (Stable)	April 2016 [ICRA]AA+ (Stable)	April 2015 [ICRA]AA+ (Stable)	
2 Non-fund Based Limits	Short Term	370.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

### Complexity level of the rated instruments

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](http://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
-	Fund-based Limits	-	-	-	30.0	[ICRA]AA+(Stable)
-	Non-fund Based Limits	-	-	-	370.0	[ICRA]A1+

Source: Mahindra Intertrade Limited

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Kinjal Shah**

+91 22 61143442

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Sakshi Suneja**

+91 22 6114 3400

[sakshi.suneja@icraindia.com](mailto:sakshi.suneja@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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