

March 05, 2021

## Moflex Suspensions LLP: Ratings reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	12.00	12.00	[ICRA]BBB+ reaffirmed; Outlook revised to Stable from Negative
Fund Based - EPC/FBD#	(5.00)	(5.00)	[ICRA]BBB+ Reaffirmed; Outlook revised to Stable from Negative
Fund Based - Term Loans	4.50	4.50	[ICRA]BBB+ Reaffirmed; Outlook revised to Stable from Negative
Non-fund Based - Bank Guarantee	0.75	0.75	[ICRA] A2+ Reaffirmed
<b>Total</b>	<b>17.25</b>	<b>17.25</b>	

#Sublimit of CC facility

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the rating outcome factors in the expected upturn in revenue and profitability in FY2021 on back of revival in demand and outlook for the auto component industry. The ratings continue to favourably factor in the long-standing experience of the promoters and the established track record of the Vikrant Group (which includes Vikrant Auto Suspensions (VAS), Moflex Suspensions LLP (MSL) and Tristar International) in the springs manufacturing industry, spanning more than five decades. The ratings also factor in the Group's established business relationship with reputed original equipment manufacturers (OEMs) such as Mahindra & Mahindra Limited (M&M) and the Vikrant's Group comfortable capital structure, coverage indicators and liquidity.

The ratings, however, remain constrained the high client concentration risk, with the top customer, M&M, accounting for the major sales share. The ratings also remain constrained by the vulnerability of the firm's profitability to fluctuations in steel prices (being the major raw material) and the partnership structure of the entity, wherein substantial capital withdrawals may adversely impact the capital structure and the liquidity profile.

The stable outlook on the ratings reflects ICRA's expectation of the group maintaining comfortable credit profile.

### Key rating drivers and their description

#### Credit strengths

**Established operational track record of Vikrant group:** VAS is a part of the Vikrant Group, whose promoters have more than five decades of experience in the automotive springs manufacturing business. Further, MSL has an operational track record of more than three decades in the automotive springs manufacturing.

**Longstanding relationship with reputed OEMs:** The firm enjoys established relationship with key OEMs such as Mahindra & Mahindra Limited and Tata Autocomp Systems Limited (TACO) with a preferred vendor status.

**Comfortable capital structure and coverage indicators; expected upturn in revenue and in profitability in FY2021:** Vikrant Groups' capital structure continued to be comfortable, with a gearing of 0.4 times as on FY2020-end. Further, the debt coverage indicators, though deteriorated, continued to be comfortable, as reflected by the interest coverage at 9.6 times, DSCR at 4.6 times and total debt/ OPBDITA at 1.2 times as on FY2020-end. Further, the MSL has achieved revenue of Rs. 51.7 crore in 9M FY2021 and with growth expected in revenue and profitability in FY2021 compared to FY2020 because of a revival in demand and stable outlook for the auto component industry.

## Credit challenges

**High client and segment concentration risk and exposure to industrial cyclicality** - M&M is the single largest customer of VAS and of Vikrant group as a whole. It contributed 47% to the Group's total sales in FY2020, with MSL's sales concentration towards M&M remaining high at ~23% of the total sales; however, the Group's longstanding relationship with M&M mitigates the concentration risk to some extent. The Group continues to maintain its focus on diversifying its customer profile, which is likely to help the firm to diversify to a moderate extent in the medium term. Further, MSL continues to be exposed to industry cyclicality associated with the automobile industry.

**Profitability to remain susceptible to volatility in steel prices:** Steel flats account for around 90% of the firm's total raw material cost. Hence, Group's profitability remains exposed to the fluctuations in steel prices. While the presence of an escalation clause in the orders from most of the OEMs provides some comfort, the profitability remains vulnerable to exports, wherein no such clause exists.

**Risk associated with partnership firm:** Any substantial capital withdrawal, given the partnership nature of the firm's constitution, could impact the net worth and the gearing level as the firm has history of capital withdrawal.

## Liquidity position: Adequate

The liquidity profile of the Group is expected to remain adequate because of limited repayments and cushion available in the working capital limits. However, the liquidity position will remain contingent on any sizeable capital withdrawal, given the Group's consistent history of capital withdrawal.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if there is substantial increase in revenue and profitability on a sustained basis or better working capital management leads improvement in capital structure and overall liquidity profile.

**Negative factors** – Negative pressure on the ratings could arise if a substantial decline in revenue and profitability puts pressure on cash accruals or any further stretch in the working capital cycle or higher-than-expected capital withdrawal or any large debt funded capex leads to moderation in capital structure and puts pressure on the liquidity.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of Vikrant Auto Suspensions, Moflex Suspensions LLP and Tristar International, given the close business, financial and managerial linkages among them.

## About the company

Moflex Suspensions LLP (MSL) was incorporated in 1995 as Moflex Suspensions Private Limited and was subsequently converted into an LLP in October 2017. It manufactures and markets leaf springs and parabolic suspension springs for OEMs in the domestic market as well as for replacement markets such as the US, Europe and Australia. The manufacturing plant is located near Vadodara, Gujarat and has an installed capacity of manufacturing 21,000 tonnes per annum (MTPA) of automotive springs.

The firm is a part of the Vikrant Group, which manufactures multi-leaf and parabolic automotive springs. The promoters have more than five decades of experience in the springs manufacturing business. Apart from VAS, the Group comprises another

leaf spring and parabolic suspension spring manufacturing company, Moflex Suspensions LLP (MSL), and an export-oriented marketing firm 'Tristar International'.

In FY2020, the Group reported a net profit of Rs. 9.0 crore on an operating income (OI) of Rs. 169.2 crore as against a net profit of Rs. 17.4 crore on an OI of Rs. 211.0 crore in FY2019.

#### Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	211.0	169.2
PAT (Rs. crore)	17.4	9.0
OPBDIT/OI (%)	13.6%	9.1%
PAT/OI (%)	8.2%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.3
Total Debt/OPBDIT (times)	0.6	1.2
Interest Coverage (times)	15.3	9.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Standalone	FY2019	FY2020
Operating Income (Rs. crore)	85.3	67.6
PAT (Rs. crore)	2.8	0.7
OPBDIT/OI (%)	6.9%	5.4%
PAT/OI (%)	3.3%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7
Total Debt/OPBDIT (times)	1.7	2.5
Interest Coverage (times)	5.5	3.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec-31, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Mar 05, 2021	Jul 07, 2020	Apr 22, 2019	Apr 04, 2019	Apr 05, 2018	-
1	Cash Credit	Long Term	12.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Term Loan	Long Term	4.50	2.84	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Bank Guarantee	Short Term	0.75	-	[ICRA] A2+	[ICRA] A2+	[ICRA A2+	[ICRA A2+	[ICRA A2+	-
4	EPC/PCFC	Long Term	(5.00)*	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-

\*= Sublimit 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 [click here](#)

#### 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	-	NA	-	12.00	[ICRA]BBB+ (Stable)
NA	EPC/FBD	-	NA	-	(5.00) *	[ICRA]BBB+ (Stable)
NA	Term Loans	February 2018	NA	December 2023	4.50	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	NA	-	0.75	[ICRA]A2+

**Source:** Company data

#### Annexure-2: List of entities considered for consolidated analysis

Company Name	MSL Ownership	Consolidation Approach
Moflex Suspensions LLP	100.00% (rated entity)	Full Consolidation
Vikrant Auto Suspensions	-	Full Consolidation
Tristar International	-	Full Consolidation

**Source:** MSL annual report FY2020

**Note:** ICRA has taken a consolidated view of VAS, MSL and Tristar.

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