February 14, 2022

Mahindra Intertrade 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 Fund-Based Limits	24.00	5.00	[ICRA]AA+ (Stable); reaffirmed
Short-Term Non-Fund-Based Limits	312.50	395.0	[ICRA]A1+; reaffirmed /assigned
Long-Term Interchangeable	-	(31.50)*	[ICRA]AA+ (Stable); assigned
Long-Term/Short-Term Unallocated	-	15.00	[ICRA]AA+ (Stable)/ [ICRA]A1+; assigned
Total	**336.50**	**415.00**	

**Cash credit facility is sublimit of non-fund-based facility*
^Instrument details are provided in Annexure-1

Rationale

While analysing Mahindra Intertrade Limited (MIL), ICRA has consolidated the financials of MIL and its six subsidiaries, owing to their common management, operational linkages and the need-based funding support MIL extends to them.

The rating reaffirmation continues to reflect 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. The rating also factors in the high likelihood of M&M extending financial support to MIL, should there be a need, because of close business linkages between them. Besides the automotive segment, the company also enjoys an established presence in the electrical (cold-rolled grain oriented or CRGO) steel processing segment. The rating continues to derive comfort from MIL's strong financial risk profile as evident from its cash surplus status and strong liquidity position, underpinned by healthy cash and bank balances along with liquid investments and significant unutilised bank lines.

The rating, however, remains constrained by MIL's exposure to cyclical end-markets (automotive and electrical segments), as reflected in volatility in its return indicators and stiff competition in the steel processing business. The ability to scale up smaller subsidiaries to a meaningful size and profitability to support its return indicators at consolidated levels also remain critical from a credit perspective.

MIL reported a marginal 2% YoY revenue decline in FY2021 due the subdued demand conditions in the automotive and electrical segments. However, the operating performance of MIL has improved in 9M FY2022, amid the uptick in demand. ICRA also derives comfort from the healthy recovery being witnessed in terms of revenues for MIL's automotive segment since FY2021. However, ICRA notes that the recovery in the electrical segment has remained slower than the auto segment. Given the strong end-user demand conditions from the automotive segment as well as higher realisations for its steel products, driven by better product mix, new customer acquisition as well as elevated steel prices in the current fiscal, the top line is expected to get a major boost in FY2022 along with margins. The same is expected to further strengthen the coverage indicators, given the minimal debt levels. ICRA, however, will continue to monitor the sustenance of MIL's growth momentum as well as its ability to maintain or grow its margin through better product mix, which will, hence, remain critical from a credit perspective.

The Stable outlook reflects ICRA's expectation that MIL will continue to benefit from its linkages with the Mahindra Group and the associated financial support and flexibility. ICRA also expects MIL's credit profile to remain stable over the medium term, supported by increasing cash accruals and healthy cash as well as bank balances and liquid investments.

Key rating drivers and their description

Credit strengths

Strong parentage as a wholly owned subsidiary of M&M limited entailing financial support and financial flexibility – MIL enjoys strong financial, operational and managerial linkages with M&M, as its wholly-owned subsidiary. The rating assigned to MIL factors in the high likelihood of M&M extending financial support to it, should there be a need. MIL primarily operates as a captive steel service centre (SSC) for M&M's automotive business, wherein it converts cold rolled steel coils into processed steel blanks for M&M's utility vehicles (UVs) and passenger cars. MIL's board of directors also includes senior personnel from Mahindra Group's executive board. As part of the Mahindra Group, MIL enjoys strong financial flexibility.

Leading player in the domestic electrical steel processing segment – 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.

Strong financial risk profile and liquidity – Aided by healthy accruals in the past, MIL has limited dependence on external borrowings and has been operating as a cash surplus company. The financial profile is adequately supported by its cash and bank balances as well as liquid investments of ~Rs. 206.0 crore (as on March 31, 2021) on a consolidated basis, against external debt of Rs. 114.6 crore (including lease liabilities of Rs. 35.9 crore). On a standalone basis, MIL has already surpassed revenues of FY2021 in H1 FY2022. MIL reported revenue of Rs. 1,056.5 crore and operating margin of 10.24% on a standalone basis in H1 FY2022 over revenue of Rs. 1,051.3 crore and operating margin of 7.4% in FY2021. The performance, on a consolidated basis, is likely to improve significantly in FY2022. However, sustainability of the growth momentum and margins will remain a key monitorable from a credit perspective.

Credit Challenges

Susceptibility of business growth to cyclicality in end-user sector – The operating performance of MIL, on a consolidated basis, weakened in FY2020 and FY2021 due to the covid-19 pandemic and subdued demand conditions in the end-user automotive and electrical segments. These segments are cyclical in nature. This was witnessed in FY2021 when MIL reported a 2% YoY decline in revenues against 31% YoY degrowth in FY2020 due the subdued demand conditions in the automotive and electrical segments. The vulnerability is also witnessed in the volatility in RoCE over the last three fiscals, reflecting MIL's business dynamics.

Exposure to competitive pressures in steel processing industry – The company is engaged in steel processing, which is a highly competitive segment, thereby constraining its OPM.

Ability to scale up smaller subsidiaries to a meaningful size and profitability to support return indicators remains critical from credit perspective – Though the company has first mover advantage in licensed recycling scrap business, given the nascent stage of operation for this as well as new electrical steel business in Indonesia (which commenced operations from January 2022), they are yet to achieve a meaningful scale and size to generate commensurate returns to support the consolidated numbers. At a consolidated level, the RoCE, hence, remained lower than standalone levels. MIL's ability to scale up these smaller subsidiaries to a meaningful scale and size will remain critical for its financial profile at a consolidated level.

Liquidity position: Strong

The liquidity profile of the company is **strong**, underpinned by healthy consolidated unencumbered cash and bank balances, and liquid investments of ~Rs. 206 crore as on March 31, 2021. Further, Mahindra Intertrade Ltd., Mahindra Steel Service Centre Ltd. (MSSCL) and Mahindra Auto Steel Pvt. Ltd. (MASPL) together had unutilised fund-based limits of ~Rs. 60.5 crore as on September 30, 2021. Against this, the company has limited long-term debt repayments of Rs. 20.6 crore in FY2022. No major capex is planned in FY2022 other than maintenance capex.

Rating sensitivities

Positive Factors – MIL's rating may be upgraded if there is a substantial scale-up in revenues, along with greater sector and client diversification, while maintaining its current strong credit profile. Improvement in ROCE to above 25% on a sustained basis, would also be a positive rating factor.

Negative Factors – MIL's ratings may be downgraded if there is any weakening in the credit profile of M&M and/or weakening in the operating performance of MIL due to sustained volume degrowth of M&M. Any large debt-funded capex or weakening of its liquidity position, which may adversely impact its credit profile will also be negative rating triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Supplier Impact of Parent or Group support on an Issuer's Credit Rating
Parent/Group Support	Parent / Group Company: Mahindra & Mahindra Limited (M&M) The ratings assigned to MIL factors in the high likelihood of its parent, M&M [rated [ICRA]AAA (Stable) / [ICRA]A1+], extending financial support to it because of close business linkages between them.
Consolidation/Standalone	The rating is based on MIL's consolidated financial profile, for which ICRA has consolidated the financials of MIL and its six subsidiaries—all enlisted in Annexure 2. The consolidated financials have not been prepared by the company, since these entities are consolidated at the M&M level and, accordingly, the key financial indicators on a consolidated level are not disclosed in the rationale.

About the company

MIL, a 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 steel service centre (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.

MIL operates through two business segments, SSC as well as metals and ferrous alloys (MFA), with SSC driving the bulk of the business. MIL operates here as a captive SSC for M&M's automotive business, wherein it converts hot rolled/ cold rolled steel coils into processed steel blanks for M&M's Utility Vehicles (UV) and Passenger Vehicles (PV). Besides meeting M&M's entire requirements, MIL also supplies CRGO steel laminations to the electrical segment, largely covering and the transformer industry. The MFA Group largely purchases and sells ferrous alloys (used in steel manufacturing) and alloy steel. However, over the years, SSC has remained the revenue driver, accounting for 74% of MIL's revenues in FY2021.

MIL has six subsidiaries, the key ones being MSSCL (rated [ICRA]AA- (Stable) / [ICRA]A1+) and MASPL (rated [ICRA]A+ (Stable)/ [ICRA]A1+). While MSSCL processes automotive and electrical steel, MASPL manufactures steel blanks, rectangles, trapezoids and profiles for automobile manufacturers. MIL's other subsidiary, Mahindra MSTC Recycling Private Limited, is engaged in setting up shredding plants and collection centres for recycling end-of-life (ELV) vehicles and ELV white goods.

Key financial indicators (standalone, audited)

MIL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1,043.9	1,051.3
PAT (Rs. crore)	36.5	59.9
OPBDIT/OI (%)	5.2%	7.4%
PAT/OI (%)	3.5%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	11.7	46.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Feb 14, 2022	Dec 31, 2020	Sept 27, 2019	Nov 06, 2018	Oct 26, 2018
1	Fund-Based Facilities	Long-term	5.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Non Fund-Based Facilities	Short-term	395.0	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
3	Cash Credit	Long-term	(31.5)*	-	[ICRA]AA+ (Stable)	-	-	-	-
4	Unallocated	Long/Short Term	15.0	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	-	-	-

**Sub-limit of non-fund-based facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund-Based Facilities	Simple
Short Term Non-Fund Based Facilities	Very Simple
Interchangeable	Not Applicable
Unallocated	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term Fund-based facilities	NA	NA	NA	5.0	[ICRA]AA+ (Stable)
NA	Short Term Non Fund-based facilities	NA	NA	NA	395.0	[ICRA]A1+
NA	Long Term-Interchangeable	NA	NA	NA	(31.5)*	[ICRA]AA+ (Stable)
NA	Long/Short Term Unallocated	NA	NA	NA	15.0	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: *Company* ** Sub-limit of non-fund-based facility*

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Mahindra Steel Service Centre Limited	61.0%	Full Consolidation
Mahindra Auto Steel Private Limited	51.0%	Full Consolidation
Mahindra MiddleEast Electrical Steel Service Centre (FZC)	90.0%	Full Consolidation
Mahindra Electrical Steel Private Limited	100.0%	Full Consolidation
PT Mahindra Accelo Steel Indonesia	100.0%	Full Consolidation
Mahindra MSTC Recycling Private Limited	50.0%	Full Consolidation

**As on September 30, 2021*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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