

March 20, 2023

## Maxop Engineering Company Private Limited: [ICRA]A+ (Stable)/[ICRA]A1 assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Term Loan	145.29	[ICRA]A+ (Stable); assigned
Long-term – Fund-based Limits – Cash Credit	166.40	[ICRA]A+ (Stable); assigned
Long-term/ Short-term – Unallocated	19.62	[ICRA]A+ (Stable)/[ICRA]A1; assigned
<b>Total</b>	<b>331.31</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings assigned to Maxop Engineering Company Private Limited (MECPL) factor in its established operational track record and extensive experience of its promoters in the aluminium die casting industry. ICRA also notes the financial flexibility, managerial and operational support enjoyed by MECPL from its majority shareholder, Fairfax Financial Holdings Limited (Fairfax<sup>1</sup>, which holds 67% stake in the company through its step-down subsidiaries). Over the years, MECPL has established an integrated manufacturing set up and wide product portfolio. Coupled with its technological capabilities, this has enabled the company to build an established client base of leading original equipment manufacturers (OEMs) and tier-1 suppliers of the automotive and non-automotive industry, leading to repeat order inflow and strong customer stickiness. MECPL, thus, enjoys a healthy share of business for all major products with its customers. The ratings also factor in MECPL's geographic diversification with presence in domestic and export markets. MECPL has maintained an adequate financial risk profile, as marked by steady internal accrual generation, translating into comfortable coverage indicators and capital structure in recent years.

MECPL's operating profit margins (OPM) are exposed to volatility in key raw material prices, although the same is mitigated to an extent through the raw material cost pass through clause, with a lag of a quarter. Despite the healthy revenue growth reported by the company in recent years, its scale of operations remains moderate, compared to other leading auto component manufacturers. The ratings also factor in the relatively high working capital intensity of the business, driven by high inventory and receivables cycle; and MECPL's exposure to the inherent cyclicity in the automotive industry.

The Stable outlook on the long-term rating reflects ICRA's expectation that MECPL will maintain a stable earnings profile and healthy credit metrics on the back of steady accrual generation and no material increase in its debt levels.

### Key rating drivers and their description

#### Credit strengths

**Financial flexibility as well as managerial and operational support from majority shareholder, Fairfax** – The Fairfax Group holds majority stake of 67% in MECPL through its Indian investment holding company, Fairfax India Holdings Corporation. Given Fairfax's successful track record of managing diverse businesses across the globe, MECPL enjoys strong financial flexibility as well as managerial and operational support from Fairfax. Apart from implementing best practices and strengthening the corporate governance standards, Fairfax has also enhanced MECPL's financial prudence with further

<sup>1</sup> rated Baa3/Stable by Moody's Investors Service



optimisation of its working capital cycle and increased focus on positive cash flow generation. Fairfax has two nominee directors on the board of MECPL.

**Extensive track record and experience of its promoters in the aluminium casting business** – Incorporated in 2003, MECPL has been promoted by Mr. Shailesh Arora, who has an extensive experience of over two decades in the aluminium die casting industry. MECPL has maintained its strong track record of operations through its six manufacturing units in Manesar (Haryana) and Jaipur (Rajasthan), with an annual die casting capacity of ~30,000 MT p.a.

**Established relationships as well as healthy share of business with customers** – Over the years, MECPL has developed a wide client base of leading domestic and global OEMs and tier-1 suppliers, including reputed players such as Maruti Suzuki India Limited (MSIL), Honda Motor Company, Groupe SEB, Regal Rexnord Corporation, Kimball Electronics and Mitsubishi Motors Corporation, among others. The company has maintained a healthy share of business with its key customers aided by its technological capabilities and diverse product profile of automotive components and heating, ventilation, and cooling (HVAC) as well as food processing parts for the non-automotive industry.

**Geographic diversification given its presence in both domestic and export markets** – MECPL's revenue base has remained geographically diversified with an established presence in both domestic and export markets. Historically, exports contributed ~65% to the company's revenues; however, the same moderated to ~45% in 9M FY2023 due to some moderation in demand from its key markets, the US and UK. The domestic revenue share has simultaneously witnessed a healthy growth over the years, accounting for 50-55% of revenues in 9M FY2023 over ~35% in FY2022. Going forward, growth is expected to be broad based across both domestic and export markets, aided by capacity expansions and widening customer and product bases.

**Adequate financial risk profile** – Over the years, MECPL's operating income has witnessed steady growth, increasing to Rs. 511.1 crore in FY2022 (Rs. 260.9 crore in FY2018). Moreover, it has achieved operating income of Rs. 409.1 crore in 9M FY2023 (as per provisional financials) supported by healthy growth in the domestic market, even though growth in the exports markets has witnessed some moderation over recent quarters. Coupled with steady OPM, healthy internal accrual generation and a comfortable capital structure, the coverage indicators of the company have improved as marked by Total Debt/OPBITDA of 2.0 times as on March 31, 2022 (3.3 times as on March 31, 2020). The company plans to incur debt-funded capex towards capacity expansion over the medium term. However, this capex will also enhance backward integration and provide expected improvement in operational efficiencies, supporting growth and accrual generation over the medium term.

## Credit challenges

**Moderate scale of operations** – Despite reporting healthy revenue growth in recent years, MECPL's scale of operations remains moderate, compared to other leading auto component manufacturers. Currently, its top 10 customers account for 75-80% of its revenue. However, MECPL is expected to report healthy growth over the medium term, resulting in increasing economies of scale.

**High working capital intensity of the business** – Given the integrated nature of manufacturing operations, relatively high transit time due to presence in the exports markets and wide variety of products manufactured through multiple facilities, the inventory cycle of the company remains high. Coupled with receivables cycle of 2-3 months, MECPL's working capital intensity, as reflected by  $NWC/OI^2$ , has remained high at ~30% in recent years. The same is expected to remain at similar levels, going forward, due to higher funding requirements on an increasing revenue base.

**Exposed to raw material price volatility and cyclicity inherent in the automotive sector** – MECPL's profitability remains susceptible to fluctuations in prices of its key raw material, aluminium. However, there exists a raw material price increase

<sup>2</sup> Net working capital/ Operating income



pass through mechanism with a lag of 3-4 months with its customers, which mitigates the risk to an extent, enabling the company to largely sustain its OPM. However, there could be a temporary impact on margins from any adverse volatility in prices. The company also remains exposed to inherent cyclicalities in the automotive industry.

### Liquidity position: Adequate

MECPL's liquidity position is **adequate** supported by steady internal accrual generation and unencumbered cash/bank balances of ~Rs. 8.0 crore as of December 31, 2022. Moreover, the company had an average monthly undrawn working capital limit of ~Rs. 20 crore during the 12-month period ending January 2023, which further supports the liquidity profile. MECPL has debt annual repayment obligations of Rs. 35-40 crore over FY2023 and FY2024; however, its internal accrual generation is expected to be more than sufficient to service the same. Moreover, the company is expected to incur capex of Rs. 100-110 crore spread over FY2023 and FY2024, which is expected to be funded through mix of debt and internal accruals. Terms loans for partial funding of the same have already been sanctioned and availed.

### Rating sensitivities

**Positive factors** – ICRA could upgrade MECPL's ratings if the company reports healthy revenue growth and internal accrual generation, resulting in strengthening of its debt protection metrics and liquidity profile. Specific credit metrics that could result in a ratings upgrade include Total Debt/OPBDITA of less than 1.5 times on a sustained basis.

**Negative factors** – Negative pressure on MECPL's ratings could arise if considerable decline in internal accrual generation, significant debt-funded capex or deterioration in working capital cycle, result in weakening its credit metrics and liquidity position. Weakening of linkages with its majority shareholder, Fairfax, may also result in a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MECPL. As on March 31, 2022, the company had two subsidiaries, which are enlisted in Annexure II.

### About the company

Incorporated in 2003, MECPL is involved in manufacturing aluminium alloy, precision high pressure die castings (HPDC) and gravity die castings (GDC) components, which find applications in the automotive and non-automotive industries. The company has been promoted by Mr. Shailesh Arora, who currently holds 33% stake with majority (67%) stake held by Fairfax India (a part of the Fairfax Financial Holdings Group). Fairfax India had acquired 51% stake in MECPL in November 2021, which was subsequently increased to 67% in September 2022. MECPL operates from its manufacturing units in Manesar (Haryana) and Jaipur (Rajasthan).



## Key financial indicators (audited)

MECPL – Consolidated	FY2021	FY2022
Operating income	338.6	511.1
PAT	27.6	60.1
OPBDIT/OI	18.3%	22.8%
PAT/OI	8.2%	11.8%
Total outside liabilities/Tangible net worth (times)	2.4	1.4
Total debt/OPBDIT (times)	4.4	2.0
Interest coverage (times)	3.7	5.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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

## Any other information: None

## Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 20, 2023			
1	Fund based – Term loans	Long-term	145.29	125.62	[ICRA]A+ (Stable)	-	-	-
2	Fund based – Cash Credit	Long-term	166.40	-	[ICRA]A+ (Stable)	-	-	-
3	Unallocated	Long-term/ Short-term	19.62	-	[ICRA]A+ (Stable)/[ICRA]A1	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based limits – Term loan	Simple
Long-term – Fund based limits – Cash Credit	Simple
Long-term/ Short-term – Unallocated	NA

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund based limits – Term loan	FY2016-FY2021	6.50-8.50%	FY2025-FY2027	145.29	[ICRA]A+(Stable)
NA	Long-term – Fund based limits – Cash Credit	-	-	-	166.40	[ICRA]A+(Stable)
NA	Long-term/ Short-term – Unallocated	-	-	-	19.62	[ICRA]A+(Stable)/[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis

Company Name	MECPL Ownership	Consolidation Approach
Maxop Synergies Private Limited	99.99%	Full consolidation
Maxop Engineering USA Inc.	99.99%	Full consolidation

Source: Company



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