July 11, 2024

Marelli Motherson Auto Suspension Parts Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term – Fund Based / Non Fund Based Facilities	15.00	20.00	[ICRA]A-(Stable)/ [ICRA]A2+; reaffirmed
Long Term – Unallocated Limits	6.10	1.10	[ICRA]A-(Stable); reaffirmed
Total	**21.10**	**21.10**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation for Marelli Motherson Auto Suspension Parts Private Limited (MMAPL) continues to factor in the strong financial, operational and managerial support provided by the promoters, Samvardhana Motherson International Limited (SAMIL; rated [ICRA]A1+) and Marelli Europe SpA (MES; erstwhile Magneti Marelli SpA). The ratings continue to draw support from MMAPL's status of being a part of SAMIL's core automotive component business operations in the domestic market. Besides, ICRA expects MES to continue to extend technological support to MMAPL, as demonstrated over the years, which would continue to support its business prospects in both domestic as well as export markets. ICRA also expects both the parent companies to extend timely financial support to MMAPL, when required, as demonstrated by timely equity infusions in the past.

The ratings, however, remain constrained by the company's modest scale of operations and weak operating performance in the last two fiscals, wherein it reported net losses on account of issues faced during ramping up of new orders in the gas springs division. While the company has taken steps to contain the same (as reflected in some improvement in the operating profitability in FY2024 vis-à-vis FY2023 level), going forward, its ability to arrest such operational challenges and demonstrate healthy profitability as it scales up its business, remain critical. ICRA also notes that despite the modest scale of operations and weak earnings profile, the company's capitalisation indicators remain largely comfortable on account of limited dependence on external borrowings. The ratings also factor in the company's customer concentration risk on account of high dependence on its top customer (50% of total sales in FY2024), along with intense competition in the domestic ride-control component market with well-entrenched global and domestic tier-I suppliers.

The Stable outlook factors in ICRA's expectation that MMAPL would continue to maintain its business and financial risk profiles at comfortable levels, going forward, with support from its promoter entities, as and when required.

Key rating drivers and their description

Credit strengths

Strong promoter and experienced management with demonstrated financial support – MMAPL has a strong parentage with equal equity participation from the reputed Samvardhana Motherson Group and Marelli Europe SpA (a wholly-owned subsidiary of CK Holdings Co. Limited). The company's management comprises professional and experienced personnel from the auto-ancillary industry. While the company has been self-sufficient in meeting its requirements over the recent past, ICRA notes the demonstrated financial support from the parent companies over the past in the form of regular equity infusion, and likelihood of continuation of the same in case of any exigency.

Strong technological support from MES – MMAPL gets strong technological and operational support from MES, which is one of the key suppliers of shock absorbers to passenger car manufacturers globally. The parent company is expected to support MMAPL technologically, mitigating the technology obsolescence risk to some extent.

Established brand and marketing network of Motherson Group – The Motherson Group has a strong foothold in the domestic market with an established brand and marketing network. It enjoys healthy relationship with reputed OEMs in India, which is expected to help MMAPL gain traction in the domestic market over the medium-to-long term.

Credit challenges

Weak profitability and return indicators – MMAPL's profitability and return indicators have remained weak in the recent past. The company has reported net losses in the last two fiscals. In FY2023, the company reported operating losses (OPBITDA margin of -7.1%) primarily on account of high rejections from one of its key customers for the supplies of gas springs. It reported operating breakeven in FY2024 following containment of rejection rates to a large extent coupled with favourable input costs during the fiscal. The management has stated that since the last six months, the rejection rates have reduced sharply and are nearly in line with other product categories. However, in the absence of any large long-term external debt, the leverage and coverage indicators remained moderate in FY2024. While the company has taken steps to further improve the operating margin, going forward, its ability to arrest such operational challenges and demonstrate healthy profitability as it scales up its business, remains critical.

Intense competition in the domestic market – MMAPL faces intense competition in the domestic ride-control component market with the presence of well-entrenched domestic and global players. Such intense competition could result in limited pricing flexibility for the players operational in the industry.

Modest scale of operations – MMAPL's scale of operations remains modest with revenues of Rs. 260.7 crore in FY2024 (provisional). However, its scale of operations is expected to increase gradually over the medium term, driven by incremental orders received from domestic OEMs as well as exports, in both passenger vehicle and commercial vehicle segments.

Exposed to customer concentration risk – Although the company has been scaling up its operations in the recent past and is securing business from other OEMs, its dependence on its top customer remains high (at about 50% of total sales in FY2024), exposing it to the customer concentration risk. However, ramp-up in supplies to other customers for new orders (for both domestic as well as overseas customers) is expected to help mitigate this risk over the medium term.

Liquidity position: Adequate

MMAPL's liquidity position is adequate, supported by a comfortable buffer from undrawn working capital lines of Rs. 21.9 crore and free cash and liquid investments of Rs. 0.2 crore as on March 31, 2024. Against the same, the company has no long-term debt repayments for FY2025, while the capex outlay for the fiscal remains modest at Rs. 5-6 crore and is expected to be funded through internal accruals. ICRA also notes that the JV partners have extended financial support to MMAPL in a timely manner, whenever required, to support its credit profile.

Rating sensitivities

Positive factors – ICRA could upgrade MMAPL's ratings if there is substantial improvement in its scale of operations, profitability and return indicators on a sustained basis. Any improvement in the credit profile of its parent companies would also be considered positively.

Negative factors – Pressure on MMAPL's ratings could arise if the credit profiles of the company or its promoter entities deteriorate materially on a sustained basis, or if the linkage between MMAPL and the promoter group(s) weakens.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Parent/Group Company: SAMIL and MES The ratings assigned to MMAPL factor in the very high likelihood of its parents, SAMIL and MES, extending financial support to it because of the close business linkages with the company. ICRA also expects SAMIL and MES to be willing to extend financial support to MMAPL out of the need to protect their reputation from the consequences of a Group entity's distress. There also exists a consistent track record of SAMIL and MES having extended timely financial support to MMAPL, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Marelli Motherson Auto Suspension Parts Private Limited is a 50:50 joint venture between Marelli Europe SpA (formerly known as Magneti Marelli SpA) and Samvardhana Motherson Group. MMAPL deals in the design, production and marketing of shock absorbers, including semi-corner modules and gas springs, for passenger vehicles and commercial vehicles. The products are aimed at local and international car makers operating in the Indian subcontinent and nearby regions. The company was initially set up with an annual manufacturing capacity of 2.3 million shock absorbers and 1.0 million gas spring units at Chakan (near Pune). The present annual manufacturing capacity stands at 3.2 million shock-absorbers and 2.7 million gas spring units.

Key financial indicators

MMAPL - Standalone	FY2022 Audited	FY2023 Audited	FY2024 Provisional
Operating Income (Rs. crore)	162.3	242.1	260.7
PAT (Rs. crore)	3.4	-28.6	-12.2
OPBDIT/OI (%)	9.8%	-7.1%	0.2%
PAT/OI (%)	2.1%	-11.8%	-4.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	1.3	1.5
Total Debt/OPBDIT (times)	0.7	-1.1	31.6
Interest Coverage (times)	11.2	-15.5	0.3

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: MMAPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 11, 2024	Apr 27, 2023	-	Jan 3, 2022
1	**Fund based /non-fund based facilities**	Long-term/ Short-term	20.00	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	-	**[ICRA]A-(Stable)/ [ICRA]A2+**
2	**Unallocated limits**	Long-term	1.10	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	-	**[ICRA]A-(Stable)**

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based /non-fund based facilities	Simple
Unallocated limits	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 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/Non fund based	NA	NA	NA	20.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	1.10	[ICRA]A-(Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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.

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