

Munjal Auto Industries Limited

	Amount (Rs. Cr)	Rating Action
		June 2016
Term Loan	62.1 (from 97.2)	[ICRA]AA- (Stable) reaffirmed
Long Term Fund Based Limits	13.0 (from 11.0)	[ICRA]AA- (Stable) reaffirmed
Short Term Fund Based Limits	15.0 (from 5.0)	[ICRA]A1+ reaffirmed
Short Term Non Fund Based Limits	16.8	[ICRA]A1+ reaffirmed
Unallocated Limits	23.1 (nil earlier)	[ICRA]AA- (Stable)/[ICRA]A1+ reaffirmed
Commercial paper	15.0	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 130.0 crore¹ bank facilities of Munjal Auto Industries Limited ('MAIL' or 'the company')[†]. The long term rating has a 'stable' outlook. ICRA has also reaffirmed a rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 15.0 crore Commercial Paper/short term debt (CP/STD) programme of MAIL.

The reaffirmation of ratings takes into account the company's status as sole supplier of mufflers to Hero MotoCorp Limited (HMCL, rated IrAAA(Stable), [ICRA]AAA(Stable)/[ICRA]A1+), which coupled with the OEM's strong position as market leader in the Indian two-wheeler market offers healthy revenue visibility for the company. The ratings also continue to draw comfort from the company's status as a Hero Group company and the strong business linkages within the group. The ratings also factor in the company's strong financial risk profile, with MAIL continuing to maintain its capital structure and coverage indicators at comfortable levels over the years. The ICRA rating also derives strength from strong financial flexibility of the company, with minimal utilisation of working capital facilities, and having ample liquid funds parked in mutual funds.

The ratings, however, continue to be constrained by the company's weak operating profitability on account of dependence on low-margin muffler business for revenues; operating profitability has been further constrained in FY2016 with weak capacity utilisation at the company's fourth manufacturing facility at Dharuhera (Haryana) and moderation in production levels at its Bawal facility for a few months during the year. The company's return indicators also remain suppressed with weak volume off-take by customers other than HMCL, resulting in sub-optimal utilisation of facilities. The ratings also factor in the client concentration risk that the company is exposed to on account of high dependence on HMCL for revenues. However, HMCL's strong market position in the Indian two-wheeler segment and MAIL's status as sole supplier of mufflers for the OEM mitigates business risks for the company significantly.

Over the medium term, the ratings will be dependent on the firm's ability to scale up its supplies to OEMs other than HMCL and reduce its dependence on a single customer for revenues. ICRA notes that ramp up in supplies from facilities installed for catering to customers other than HMCL also remain critical in improving the company's return indicators.

Company Profile

Munjal Auto Industries Limited ('MAIL' or 'the company') is a Hero group company with the promoter group holding 74.8% in MAIL's equity as on March 31, 2016. It was promoted in 1985 as Gujarat Cycles, a joint venture of the Hero Group and Gujarat Industrial Investment Corporation (GIIC) for the manufacture and export of bicycles, and was referred to BIFR in 1993. Thereafter, the company shifted to manufacturing sheet metal motorcycle components at its facility at Binola, Gujarat. In 2001, MAIL set up a forging facility at Gurgaon, Haryana, for manufacturing transmission gears; and also changed its name to Munjal Auto Industries Limited. MAIL's net-worth turned positive in FY2002 and the company came out of the purview of BIFR in January 2003. In August 2005, MAIL's forging capacities were divested into a separate company. Currently, MAIL is engaged in the supply of mufflers, rims and scooter wheels to Hero MotoCorp Limited for its two-wheelers. The

¹ 100 Lakh = 1 Crore = 10 million

[†] For detailed rating scales and definitions refer the ICRA website www.icra.in or other ICRA publications



manufacturing units of the company are located at Baroda (Gujarat), Bawal (Haryana), Dharuhera (Haryana) and Haridwar (Uttarakhand).

Recent Results

As per provisional financials, MAIL reported a PAT of Rs. 20.1 Crore and an OPBITDA of Rs. 46.5 Crore on an Operating Income of Rs. 885.4 Crore in FY2016. As per audited financials, the company reported an operating income of Rs. 888.8 Crore, OPBITDA of Rs. 69.3 Crore, and PAT of Rs. 38.0 Crore during FY2015.

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