

Mahindra Sona Limited

Instrument	Amount	Rating Action
Term Loan	Rs. 20.00 crore	[ICRA] A+ (Stable) <i>reaffirmed</i>
Fund Based Limit	Rs. 20.00 crore	[ICRA] A+ (Stable) <i>reaffirmed</i>
Non-Fund Based Limits	Rs. 10.00 crore	[ICRA] A1+ <i>reaffirmed</i>

ICRA has reaffirmed the [ICRA] A+ (pronounced ICRA A plus) rating to the Rs. 20.00 crore fund based facilities and Rs. 20.0 crore term loans of Mahindra Sona Limited (MSL)[†]. The outlook on the long term rating is stable. ICRA has also reaffirmed the short term rating of [ICRA] A1+ (pronounced as ICRA A one plus) to the Rs. 10.0 crore non-fund based facilities of MSL[†].

The reaffirmation of ratings continued to draw comfort from the the company's established business relationship with leading domestic OEMs and the extensive experience of promoters in the auto/auto ancillary business, facilitating access to technical collaboration with the Korean auto-ancillary manufacturer Hyolim Industrial Co. Ltd.. The ratings also take into consideration the traction developed in the commercial vehicle (CV) segment, wherein the company has commenced supplies to the light- and medium load divisions. This has enabled the diversification of the company's revenues, beyond the traditional utility vehicle (UV) segment. The financial profile of the company continues to be robust, as evinced by the comfortable capital structure – despite the debt-funded capex undertaken in FY2016 – and healthy profitability levels and return indicators; the working capital intensity of operations remains moderate, thus further supporting the healthy cash flow position.

The ratings however, continue to remain constrained by the high concentration of business with Mahindra & Mahindra Limited (M&M) and the dependence on rear-wheel and 4X4 drive UV segment, which is currently witnessing a shift in preference towards front-wheel drives. The consequent risk of lower offtake is however, mitigated to some extent by the foray into the CV segment as mentioned above. Nevertheless, the operations of the company are exposed to the cyclical nature associated with the UV and CV segment in both the domestic and exports market; the muted demand indicators of the exports – coupled with the reduced sale of certain high-margin propeller shafts – have impacted the profitability levels of the company in FY2016. The ratings also factor in the company's exposure to foreign currency fluctuation risk although the risk is partially mitigated on account of natural hedging through imports and through forward covers.

The ratings would remain sensitive to the ability of the company to weather the cyclical nature in the automobile and auto-component industry, increase its client as well as product base and hence maintain its profit margins.

Company Profile

The operations of the company commenced in 1979, from a Nashik-based facility, as a part of the joint venture between M&M and Dana Corporation USA, named Mahindra Spicer Limited. In 1984, Mahindra Spicer Limited merged with M&M and came to be known as the Automotive Component Unit of M&M. In March 1995, M&M and Sona Koyo Steering Systems Ltd formed a joint venture which was named Mahindra Sona Limited. The assets of the automotive component unit of M&M were transferred to MSL for a consideration of Rs. 14.0 crore. Additionally a non-compete fee of Rs. 2.0 crore was also paid to MML.

The Company is engaged in designing and manufacturing of a wide range of auto ancillary products such as propeller shafts, clutches, universal joints (UJ) kits, steering joints, steering column parts and axle shafts for commercial vehicles.

Recent Results

During the 12-month period ending March 31, 2016, the company reported a net profit of Rs. 29.3 crore on an operating income of Rs. 427.7 crore as compared to a net profit of Rs. 31.0 crore on an operating income of Rs. 392.5 crore during the 12-month period ending March 31, 2015.

[†] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications



During the 6-month period ending September 30, 2016, the company reported a net profit of Rs. 12.9 crore on an operating income of Rs. 215.2 crore

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