

## MAG India Industrial Automation Systems Private Limited

February 15, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Unallocated	20.00	[ICRA]BBB- (Stable) assigned
Short Term - Unallocated	5.00	[ICRA]A3 assigned
<b>Total</b>	<b>25.00</b>	

### Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to Rs. 20-crore long-term fund-based limits and a short-term rating of [ICRA] A3 (pronounced ICRA A three) to the Rs. 5.00 short-term fund-based limits of MAG India Industrial Automation Systems Private Limited (MAG India). The outlook on the long-term rating is Stable.

### Rationale

The assigned ratings positively factor in the strong parentage of MAG India as a part of the MAG Global Group. The company has been receiving operational and financial support from its parent in the form of knowledge sharing and technology support apart from equity infusion and extended credit period. The acquisition of the MAG Global Group by the Fair Friend Group or FFG (one of the largest machine tools Group in the world) in 2015 has given MAG India the opportunity to serve FFG Global Group Companies apart from MAG Germany in sales, service and localisation of products. The assigned ratings also factor the Fair Friend Group's long relationship with a reputed client base in India. ICRA also factors in MAG India's comfortable credit risk profile characterised by healthy return indicators and zero net debt position. Though the company's proposed capex plans are expected to increase debt levels, the leverage levels are expected to be in consonance with the ratings assigned.

The ratings, however, are constrained by the company's modest scale of operations. The ratings also continue to be constrained by the significant exposure of the company to the cyclical automotive sector, however, the company has plans of increasing revenue contribution from other sectors. That apart, the company faces competition from domestic players in the vertical milling segment and from foreign players in the more complex horizontal milling segment. ICRA also notes that the proposed capital expenditure towards building a new manufacturing facility exposes the company to project-execution risks in the form of time and cost overruns.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that the firm's operational and financial risk profile will remain moderate and the company will continue to benefit from the strong parentage of FFG. Given the stable demand outlook and strong design and execution capabilities of the company, MAG India is well positioned to meet the expected uptick in demand. The outlook may be revised to Positive if there is significant improvement in the company's financial risk profile supported by healthy growth in revenue and profitability. The outlook may be revised to Negative if there are significant time and cost overruns in undertaking the capex or if ramp up takes longer than anticipated, resulting in lower-than-expected cash accruals.

## Key rating drivers

### Credit strengths

**Operational and financial support from parent company** – The parent company of MAG India, Fair Friend Enterprise, is a leading manufacturer of horizontal and vertical machining centres and one of the largest machine tools group in the world. MAG India has witnessed a series of positive developments with the MAG Global Group becoming an integral part of FFG. This has given MAG India the opportunity to serve the Group companies of the FFG Group through service, marketing and localisation of products. The company has also been receiving financial support from its parent in the form of equity infusion and extended credit period.

**Products supplied to a reputed clientele** – MAG India undertakes marketing and product servicing for its parent MAG Germany's products and other FFG Europe and Americas Group's products in India. So far, it has been able to solicit orders and undertake product servicing for reputed clients like Tata, Renault Nissan, Ford India, General Motors India, Ashok Leyland, Mahindra etc. in the automotive sector. It also serves other industries like aerospace, energy and general engineering.

**Healthy order book position** – The company has an outstanding order book position worth Rs. 63 crore as on December 31, 2017. It has orders from reputed companies such as Sundaram Fasteners, Renault Nissan, MM Forgings and Turbo Energy to name a few.

**Significant entry barriers:** The machine tool industry is capital intensive in nature and requires high technical capabilities that act as significant entry barriers, especially for the higher-end machine tools.

### Credit challenges

**Intense competition** – The Indian machine tool industry is intensely competitive in terms of price for low value-added machinery from domestic players as well as product quality and innovation in high value-added products from foreign players.

**High dependence on automotive sector** – Though the company has presence in various industries, namely general engineering, aerospace, defence etc, it is primarily dependent on the automotive sector. Therefore, any slowdown in the sector can adversely impact the company's revenues.

**Large debt-funded capex** – The company has an investment plan for addition of a new manufacturing facility with a total investment outlay of Rs. 41.60 crore. MAG India has already paid the land consideration of Rs. 13.75 crore as on December 31, 2017, which is funded through fresh equity of Rs. 6.12 crore and internal accruals. The company proposes to fund the balance capex of Rs. 27.85 crore through term loan of Rs. 15.00 crore, additional fresh equity of Rs. 10.00 crore and internal accruals of Rs. 2.85 crore.

**Minimal experience in manufacturing** – Although the company has been present in the marketing, component manufacture, service and spare supply business for over a decade, it has limited experience in machine tool manufacture as the production and assembly for the same started only in FY2016. ICRA, however, notes that the company will benefit from the vast experience of the parent company in machine tool manufacture. The company's ability to ramp up sales with the increased capacity as well as maintain profitability will be critical for servicing the proposed debt.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

## About the company

MAG India was incorporated as a private limited company on December 29, 2006. It is a part of the MAG Group of Companies, which is now owned by FFG. Its immediate holding company is M/s FADAL Engineering (Mauritius) Limited, a company incorporated under the Laws of Mauritius and a wholly-owned subsidiary of MAG IAS GmbH, Germany.

MAG India is involved in the business of providing marketing services to various entities in the MAG Group and FFG. It is also engaged in domestic retail trading in machine tool spares and parts, providing service support for installation and commissioning of machineries as well as service support in terms of software services related to industrial machinery, to the entities in the MAG Group and other FFG Group companies located in various parts of the world. It also manufactures fixtures and adaptor plates for various types of machinery manufactured by the entities in the MAG Group that are in Europe, China and the US. The company is also involved in contract manufacturing of various types of components/parts used in different types of equipment/machines/engines etc. MAG India provides high technology system solutions to players in automotive, aerospace, energy and general engineering sectors.

## Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	34.4	63.1
PAT (Rs. crore)	5.5	5.1
OPBDIT/OI (%)	24.5%	8.8%
RoCE (%)	47.3%	37.6%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	196.9	25.7
NWC (%)	-26.4%	10.6%

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

**Any other information: None**

## Rating history for last three years

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Unallocated	20.00	NA	[ICRA]BBB-(Stable)	NA	NA	NA
2	Unallocated	5.00	NA	[ICRA]A3	NA	NA	NA

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Unallocated	NA	NA	NA	20.00	[ICRA]BBB-(Stable)
NA	Short Term - Unallocated	NA	NA	NA	5.00	[ICRA]A3

Source: MAG India Industrial Automation Systems Private Limited

## ANALYST CONTACTS

### Shubham Jain

+91-0124-4545306  
[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

### Mathew Kurian Eranat

+91-8043326415  
[mathew.eranat@icraindia.com](mailto:mathew.eranat@icraindia.com)

### Adarsh Reddy

+91-8043326405  
[adarsh.reddy@icraindia.com](mailto:adarsh.reddy@icraindia.com)

### Shivani Sahoo

+91-8043326406  
[shivani.sahoo@icraindia.com](mailto:shivani.sahoo@icraindia.com)

## RELATIONSHIP CONTACT

### Jayanta Chatterjee

+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860  
[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents