

Moldex Composites Private Limited

April 04, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	5.00	[ICRA]BBB- (Stable); Assigned
Cash Credit	5.00	[ICRA]BBB- (Stable); Assigned
Total	10.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long -term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 10.00 crore¹ bank line facilities of Moldex Composites Private Limited (MCPL)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating favourably factors in the extensive experience of the founders in the carbon composite industry and financial and business support from its parent company Rockman Industries Limited (Rockman; [ICRA]AA(Positive)/A1+).

The company is a manufacturer of carbon composite parts primarily to the automobile and other sectors such as engineering and wind power. Carbon composites parts are made of carbon fibres and have several advantages such as low weight, high tensile strength, high temperature tolerance and low thermal expansion. Carbon composites are extensively used in the aerospace industry to develop high strength and low weight components. The market for advanced composites based on carbon fibers, carbon nanotubes and graphene, was estimated at \$ 19.3 billion in CY 2016 and it is expected to become a \$35 billion industry by CY 2020. The key growth driver for the carbon composite industry are aerospace, wind energy and automobile sector.

The company's founders have significant experience in developing carbon composite parts for motorsport companies and have been associated with several companies including Ferrari F1, Sauber Motorsport and Renault F1 among others. MCPL was established in 2010 with the objective of developing cost-competitive carbon composites primarily for motorsport companies. The company is in its initial growth phase and one of its program with General Motors (GM) phased out because of which the company's scale has been limited.

However, Rockman's acquisition of majority stake in MCPL is expected to benefit the company's business and scale of operations. Rockman acquired a 50.26% stake in the company in January 2017 to enter segments with long-term growth prospects, and it provides business and financial support to MCPL. MCPL is now looking to diversify from the motorsport segment into other sectors such as automobile and aerospace in order to generate steady revenues and scale-up its business.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

In line with its objective, the company acquired a minority stake in a United Kingdom (U.K.) based carbon composite manufacturer in Q4 FY 2018 which was funded via equity infusion from its founders and Rockman. This partnership is expected to benefit MCPL because some of the business coming to the U.K. entity will be routed through MCPL. The management expects the minority acquisition to significantly boost MCPL's revenues going forward.

However, the ratings are constrained by the company's modest scale of operations along with volatility in the company's profitability owing to lumpy revenues. The ratings are further constrained by decline in the company's coverage and capitalisation indicators in FY2018 because of reported losses due to high costs associated with its product development and expanding its technical team. ICRA expects Rockman to support any shortfall related to interest and debt repayments. The volatility in the company's financial indicators is because the company is in the initial gestation phase. Going forward, ICRA expects the company to have healthy profitability metrics owing to its presence in a fast growing and niche industry.

Outlook: Stable

ICRA believes MCPL will grow at a healthy pace in the near term and any short fall in interest or debt payments will be met by Rockman. The outlook may be revised to 'Positive' if the company reports substantial growth in its revenue and improvement in its financial indicators. The outlook may be revised to 'Negative' if the company's financial indicators decline significantly.

Key rating drivers

Credit strengths

Strong parentage by virtue of being majorly (50.26%) owned by Rockman Industries Limited – The company receives financial and business support from its parent company, Rockman Industries Limited.

Deep knowledge and sector relationship of the founders - The company's founders have significant experience in the carbon composite industry which has helped the company acquire business in its initial phase.

Acquisition of minority stake in U.K. based carbon composite entity to benefit the company's scale of operations – MCPL acquired a minority stake in a U.K. based carbon composite entity which will help the company get business from the luxury car OEMs based in Europe.

Strong growth expected in the carbon composite industry – The carbon composite industry is expected to grow significantly in the medium term because of increased application in several industries including aerospace and automobiles.

Credit challenges

Small scale of operations and fluctuating profitability indicators - The company has a small scale of operations and has witnessed flat growth over the last few years owing to phase out of a GM program for which it developed carbon composite parts. The operating income stood at Rs. 10.6 crore in FY2017 as against Rs. 14.8 crore in FY2016. As a result, the company's profitability has also fluctuated over the past few years and it had losses at the EBITDA level in 9m FY2018.

Foreign exchange exposure because unhedged export sales – Majority of the company's sales are exports and are unhedged, because of which the company has significant foreign exchange risk. However, the risk is mitigated to some extent because majority of the company's raw material and some of the employee cost is also denominated in foreign currency.

Penetration of carbon composite is very low in mass market because of high costs – At present, carbon composites are limited to niche areas because of high costs. As a result the company’s scale-up of business will be sensitive to adoption of carbon composites, especially by the automobile industry.

Limited exposure to sectors other than automobiles such as aerospace limits business prospects - The company has limited exposure to sectors other than automobile which could limit business prospects from other industries that have substantial application of carbon composites, such as aerospace and defence. This is because of the high regulatory requirements in these sectors.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

About the company:

MCPL is a 50.26% subsidiary of Rockman Industries ([ICRA]AA(Positive)/A1+) involved in the manufacturing of carbon composite parts. The company was founded in 2010 by its original partners - Parag Rajda, Ian Thomson and Robert Neumann with the objective of supplying cost effective carbon composites manufactured in India. Two of the company’s promoters have been involved with designing and developing advanced composites for motorsport companies. Till FY2017, majority of the company’s revenues were from the motorsport sector with General Motors as its largest client. After Rockman’s purchase of majority stake in the company, MCPL is looking to enter other sectors with stable revenue generation, such as the automobile sector.

In Q4 FY2018, the company acquired a 27% stake in a U.K. based manufacturer of carbon composite for passenger vehicle (PV) original equipment manufacturers (OEMs) in Europe. MCPL expects the partnership to add technical capabilities as well as generate significant revenues in the near term.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	14.8	10.6
PAT (Rs. crore)	6.4	1.2
OPBDIT/ OI (%)	59.5%	9.9%
RoCE (%)	83%	5%
Total Debt/ TNW (times)	0.1	0.2
Total Debt/ OPBDIT (times)	0.1	1.7
Interest coverage (times)	77.4	8.0
NWC/ OI (%)	11%	33%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount O/s* (Rs Crore)	Date & Rating Apr 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loan	5.00	3.6	[ICRA]BBB- (Stable)	-	-	-
2	Cash Credit	5.00	NA	[ICRA]BBB- (Stable)			

* as on Dec 31, 2017

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

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	Term Loan	FY 2018	6M LIBOR + 195 bps	FY2023	5.00	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BBB+ (Stable)

Source: The company

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan

+91 124 4545 328
shamsherd@icraindia.com

Sreejan Dutta

+91 124 4545 396
sreejan.dutta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
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

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For more information, visit 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

Website: 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

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