

## Bill Forge Private Limited

July 27, 2018

### Bill Forge Private Limited: Ratings reaffirmed; outlook continues to be positive

#### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/ cash credit	100.0	100.0	[ICRA]AA- (Positive); Reaffirmed
Short-term Non-fund based	80.0	80.0	[ICRA]A1+; Reaffirmed
Long-term/ short-term unallocated	6.0	6.0	[ICRA]AA- (Positive)/[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>186.0</b>	<b>186.0</b>	

\*Instrument details are provided in Annexure-1

#### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs. 100.0-crore fund-based facilities of Bill Forge Private Limited (BFPL/ the company). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 80.0-crore<sup>1</sup> non-fund based facilities. ICRA has also reaffirmed the long-term/ short-term rating of [ICRA]AA- (pronounced ICRA double A minus)/[ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 6.0-crore of unallocated facilities of the company<sup>2</sup>. Long-term/ short-term limits are interchangeable and shall apply depending on the usage. The outlook on the long-term rating continues to be positive.

#### Rationale

ICRA has taken a consolidated view of the company, along with its Mexico-based subsidiary Bill Forge De Mexico while arriving at the ratings.

The rating reaffirmation factors in the extensive experience of the company's promoters and strong track record of its parent Mahindra CIE Automotive Limited (MCIE) in the auto component industry, which continues to support its business prospects. The company continues to enjoy longstanding relationships with a diversified customer base (top three customers contributed 29% to BFPL's revenues in CY2017) comprising various tier-I vendors and original equipment manufacturers (OEMs), providing revenue stability. The company has also been witnessing traction in after-sales demand, which contributed ~8-10% to the company's revenues in CY2017, opening up new growth avenues for BFPL. Further, BFPL is expected to continue to benefit from its market leadership position in the steering races segment in India, lending revenue visibility to the company. While the domestic market continues to be the mainstay of the company, contribution from exports has increased (19% in CY2017 from 8% in FY2015), primarily in the four-wheeler components wherein BFPL enjoys relatively superior margins as compared to its two-wheeler components. Going forward, increasing contribution from exports is expected to support higher margins for the company. The financial profile of the company continues to be characterised by healthy operating margins (~18.4% in CY2017), strong capital structure (0.4 times as on December 31,

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

2017) and comfortable coverage indicators (interest coverage and total debt/ EBITDA at 17.4 times and 1.3 times respectively in CY2017) supported by healthy cash accruals.

ICRA also takes note of the commencement of operations at the company's Mexico plant during Q1 CY2017. While a confirmed order book position from its key customer GKN Driveline (India) Limited (GKN) is expected to support healthy revenue and margin growth for the company's Mexico plant, it is also expected to protect its revenues from the prevailing volatility in the auto component industry of Mexico and the US. While BFPL has spent ~Rs. 126-crore in setting up the Mexico plant, the same has been funded in the form of a term loan from CIE Automotive Group. Going forward, while the company plans to enhance its capacities in the Mexico plant to serve new customers like Nexteer etc., the same is expected to be funded by MCIE or the CIE Automotive Group (holds 51% in MCIE) in the form of term loans. While the current healthy monthly run rate of Rs. 7.0-7.5 crore at the company's Mexico plant leads to healthy cash flows, the debt-heavy capital structure of the same continues to strain BFPL's capitalisation ratio and margins to an extent. As the Mexico plant stabilises, it is expected to be self-sufficient in its repayment obligations. While total debt/ net worth stood at 0.4 times as on December 31, 2017, it is expected to deteriorate to 0.5-0.6 times by December 31, 2018 on account of an envisaged Rs. 50-crore capex, which is expected to be supported by MCIE or CIE Automotive in the form of a term loan. The break-even of the Mexico plant, despite the debt-funded capex, will be a key credit monitorable for BFPL.

The ratings also factor in the company's exposure to cyclicity in the auto industry, and volatile commodity prices, which is mitigated to a certain extent by price escalation clauses in the contracts BFPL enters into with its customers. The impact of any trade disruption due to punitive tariffs by the USA on imports would be a key monitorable.

## Outlook: Positive

ICRA believes that the company will continue to benefit from the extensive experience of its promoters and parentage, stabilisation of its Mexico plant in addition to continued traction in its four-wheeler and export segments. The outlook may be revised to stable or negative if the cash accrual is lower than expected, or if any major debt-funded capital expenditure, or substantial cash outflow to parent, weakens liquidity.

## Key rating drivers

### Credit strengths

**Extensive experience of the promoters and parentage** - While guidance from experienced promoters continues to support the company's operations, MCIE's established presence in Europe with strong marketing channels and operational synergies, provides growth opportunities for BFPL's Mexico plant. MCIE or the CIE Automotive Group is also expected to support the envisaged Rs. 50-crore capex in the form of term loans for the BFPL's Mexico plant in CY2018.

**Established market leadership in steering races** - With production volumes of 75-80 lakh steering races per month, the company holds a majority share in the Indian market for steering races (contributing 31% to the company's revenues in CY2017), supporting the business prospects of the company.

**Extensive relationship with a fairly diversified customer base** - Supported by higher traction in volumes from four-wheeler customers, the company witnessed moderation in revenue concentration from top three customers to 29% in CY2017 (decreased from 34% in FY2013). The client concentration risk is further moderated to a certain extent as the company supplies to Nexteer Automotive Group Limited, NTN Bearing India Private Limited and GKN, which in-turn caters to all the major four-wheeler OEMs in the domestic market.

**Financial profile characterised by healthy operating margins, strong capital structure and comfortable coverage indicators supported by healthy cash accruals:** The company reported healthy revenues of Rs. 721.2 crore in CY2017,

supported by the Rs. 29.5-crore revenue contribution from its Mexico plant. Although the fixed costs at the company's Mexico plant were relatively high, on account of sub-optimal capacity utilisation in the initial months, the company witnessed healthy operating margins (consolidated) of 18.4% in CY2017. Total debt/ net worth and total debt/ OPBITDA were comfortable at 0.4 times and 1.3 times as on December 31, 2017 respectively. Going forward, with stabilisation of the Mexico plant, the company is expected to witness a revenue growth of 10-12% with operating margins around 19%. With improving cash accruals, total debt/ net worth and total debt/ EPBITDA is expected to moderate to 0.2 times and 0.8 times respectively over the next two-three years.

## Credit challenges

**BFPL is exposed to cyclicity in auto industry** - The company is exposed to the inherent cyclicity of the auto industry, which could be further impacted by the prevailing uncertainty in US import tariff for auto parts, which has the potential for a large disruption of the global auto component supply chain. The company is expected to benefit from its longstanding relationship with its customers, strong order book position for its Mexico plant from GKN and its established position in the market, lending revenue visibility.

**Vulnerability of profitability to any adverse fluctuation in raw material prices** - The company's margins are exposed to raw material price fluctuation. Any adverse movement in the price of raw materials could have an adverse impact on the firm's margins; however, the same is mitigated by the company's ability to pass on any increase in raw material price to its customers.

**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 manufactures](#)

## About the company

Bill Forge Private Limited (BFPL), incorporated in 1982 by the Haridass family, manufactures precision forged (hot, cold, and warm forgings) and machined automotive components. In September 2016, the company was acquired by Mahindra CIE Automotive Limited (MCIE), a part of CIE Automotive SA, and the company is currently a 100% subsidiary of MCIE, which is also an auto component supplier with presence across multiple business lines viz. forgings, castings, stampings, magnetic products and composites.

BFPL's manufacturing facilities are located at Bangalore (three units at Jigani and one unit each at Attibele and Bommasandra), Haridwar (one unit catering to Hero MotoCorp) and Coimbatore (one unit). The company also set up a new plant in Mexico under its subsidiary, Bill Forge de Mexico, which commenced its operations in January 2017 with GKN as its key customer. Commencing its operations in 1985 as a job-worker, the company later entered into manufacturing of universal joint components. Its major customers include reputed domestic OEMs such as Bajaj Auto Limited (Bajaj), Hero MotoCorp Limited (Hero Motocorp), TVS Motor Company Limited (TVS), Honda Motorcycles & Scooters India Limited (Honda) and Yamaha Motor India Limited (Yamaha) in the two-wheeler segments, while in the four-wheeler segment the company mainly caters to tier-1 players like NTN Bearing India Private Limited (NTN), GKN Driveline (India) Limited (GKN) and Delphi Automotive PLC (Delphi). In addition, BFPL also exports four-wheeler components to reputed global automobile manufacturers like General Motors and Ford Motor Company and also to Tier I players like NTN, American Axle & Manufacturing, Inc. (American Axle) and Nexteer Automotive Systems Private Limited (Nexteer).

### Key financial indicators (audited)

	FY2016	CY2017
Operating Income (Rs. crore)	581.3	691.7
PAT (Rs. crore)	51.4	62.7
OPBDIT/OI (%)	18.9%	18.8%
RoCE (%)	25.1%	25.8%
Total Debt/TNW (times)	0.3	0.1
Total Debt/OPBDIT (times)	0.8	0.3
Interest coverage (times)	8.8	33.6

Source: company; standalone financials

### 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 Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2016 June	
				July 2018	May 2017	Dec 2015	2015	
1	Fund-based/ cash credit	Long-term	100.0	-	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-fund- based	Short-term	80.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	Long-term/ short-term	6.0	-	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

### 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	Fund-based/ cash credit	NA	NA	NA	100.0	[ICRA]AA-(Positive)
NA	Non-fund-based	NA	NA	NA	80.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	6.0	[ICRA]AA- (Positive)/ [ICRA]A1+

Source: BFPL

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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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For more information, visit [www.icra.in](http://www.icra.in)

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