Mahindra CIE Automotive Limited

January 03, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based/Non-Fund Based Facilities	Rs.295.00 crore	Rs.295.00 crore	[ICRA]AA-(Stable)/ [ICRA] A1+; Outstanding
Commercial Paper	Rs.50.00 crore	Rs.200.00 crore	[ICRA]A1+; Assigned/Outstanding

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to reflect the large scale of operations of Mahindra CIE Automotive Limited (MCAL) and its diversified presence across geographies, automotive segments and products. ICRA notes the strategic importance for CIE Automotive SA (CIE) as the auto component division for South and South East Asian markets. The ratings also factor in MCAL's comfortable capital structure with moderate leverage and satisfactory debt coverage indicators, which are likely to strengthen further amid robust free cash flow generation from the business over the near-to-medium-term. ICRA expects the proposed merger of Bill Forge Private Limited (BFL, rated [ICRA]AA- (Ratings placed on watch with developing implications) with standalone operations to result in improved synergies and, hence, profitability of the Indian operations over the medium term.

The European business, which drove 59% of MCAL's revenues during CY2017, is likely to witness healthy traction in the medium term, given ramp-up in the Italian and Lithuanian subsidiaries. The Indian business has also witnessed margin expansion over the last two years, supported by better operating leverage and improved operating efficiencies. With expected improvement in cash accruals and modest debt repayment obligations, the cash flow position of the company is expected to remain robust. Nevertheless, any large debt-funded acquisition or greenfield expansion will remain a key rating sensitivity, going forward. The rating strengths are partially offset by MCAL's subdued return indicators (RoCE) due to sub-par performance of the German forging business and moderate client concentration risk with its top two clients generating 27% of the consolidated revenue during CY2017.

ICRA expects the company to maintain its credit profile through its organic and/or inorganic investment plans; although ICRA would evaluate the impact of any such investments on the credit profile on a case-by-case basis. The liquidity profile is expected to remain stable, supported by adequate undrawn bank facilities as well as cash and liquid investments of Rs. 298 crore on a consolidated basis, as on June 30, 2018. The enhanced commercial paper programme is carved out of the MCAL's already sanctioned working capital limits. ICRA expects MCAL to continue to generate free cash flow from the business, which is expected to further strengthen its credit profile over the medium term.

Outlook: Stable

ICRA expects MCAL's credit profile to improve over the medium to long-term, supported by improvement in its European business and the firm's focus on improving its product mix along with better asset utilisation. The outlook may be revised to Positive if there is sustainable improvement in its scale of operations and capital structure, along with a more diversified customer portfolio. The outlook may be revised to Negative in case of significant downturn in the global automotive industry or weakening in market position, thereby materially impacting profitability and return indicators or any leveraged acquisition, which may have a bearing on the leverage indicators of the firm. ICRA expects the company to maintain its credit profile through organic and/or inorganic investment plans; and the impact of any such investments on the credit profile will be evaluated by ICRA on a case-by-case basis.

Key rating drivers

Credit strengths

Strong parentage and strategic importance for CIE – CIE enjoys a global automotive footprint across multiple technologies. Moreover, MCAL enjoys strategic importance for CIE's global operations as the auto component division for South Asian and South East Asian markets.

Synergies derived from CIE's global operations – CIE enjoys established relationships with global OEMs such as Volkswagen AG, Renault SA, and Ford Motor Company, Fiat Chrysler Automotive, General Motors Company, and Nissan Motor Company Limited, among many others. MCAL has a medium-term plan to introduce CIE's products (such as aluminium casting and plastics) to the Indian market, which will further help in diversifying its clientele and product portfolio.

Well diversified operations in terms of technology divisions, geographical reach and industry segments – MCAL is present across six business segments—forging, stamping, casting, gears, composite and magnetic products. Its six business divisions are spread across passenger vehicles, commercial vehicles, tractors, two-wheelers and off-road segments. MCAL also has a geographically diversified revenue base, which mainly includes India (41%) and Europe (59%).

Favourable capital structure and satisfactory coverage metrics – Thanks to strong cash accruals and accretion to reserves as well as repayment of debt, MCAL's leverage reduced to 0.3x in December 2017 (over 0.4x in December 2016). On a consolidated basis, Total Debt/OPBDITA stood at 1.5x as on December 2017.

Credit challenges

Subdued profitability due to sub-optimal capacity utilisation in German forging business – Though the operational performance of its European business has witnessed a steady improvement over the years, MCAL's German operations reflect below par performance, dragging the overall return indicators (RoCE of ~12% on a consolidated basis). Nevertheless, there has been steady improvement in profitability, supported by ramp-up in Indian operations as well as European subsidiaries (especially in Lithuania and Italy).

High client concentration risk at consolidated level with top two customers accounting for 27% of revenues; acquisition of BFL helped diversify client base in Indian operations – Despite its large clientele, MCAL's dependency on its top two customers remain moderately high at 27% (M&M at 16% and Daimler AG at 11%). Nevertheless, their healthy share of business and strong market position mitigates the client concentration risks to an extent.

Exposure to cyclicality in automotive industry across domestic as well as overseas markets – The auto-supplier industry remains vulnerable to the cyclicality inherent in the automotive industry and the pricing pressures that auto-suppliers face from large OEMs.

Liquidity position

The company's working capital limit utilisation has been low with average fund-based utilisation of ~11% and non-fund based utilisation below 25% over the last one year. There is strong liquidity comfort available with the company in the form of undrawn banks lines, from the sanctioned fund-based lines of over Rs. 4,020 crore and non-fund based facilities of over Rs. 2,730-crore. The company's liquidity profile is supported by financial grants from the promoters and indirect financial support from the Group companies in the form of extended credit period.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Component Manufacturers](#)
Parent/Group Support	Parent/Group Company: CIE Automotive SA The ratings assigned to MCAL factors in the high likelihood of its parent group, CIE, extending financial support to it because of the close business linkages between them. ICRA also expects CIE to be willing to extend financial support to MCAL out of the need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of CIE having extended timely financial support to MCAL
Consolidation/Standalone	Consolidated - For arriving at the ratings, ICRA has considered the consolidated financials of MCAL. As on March 31, 2018, the company had three subsidiaries and 15 step-down subsidiaries who are all listed in Annexure-2

About the company

Mahindra CIE Automotive Limited is part of the global auto component player, CIE Automotive Group, based out of Spain. MCAL was earlier known as Mahindra Forgings Limited (part of Mahindra Systech Division) and was later renamed, following the integration of the Mahindra Group's Systech business with CIE, which was announced in 2013.

Mahindra Systech, a division of Mahindra & Mahindra, was created in 2004 to capitalise on the opportunities presented by the growth of the Indian automobile component industry. The Systech division was formed through the amalgamation of some existing Mahindra Group companies combined with a series of acquisitions in India and Europe. The Systech auto component division (comprising multiple companies, listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites. Apart from its strong presence in forgings, MCAL is also among the largest ductile iron casting and compression moulded auto components manufacturers in India. Its standalone operations consist of six product segments—forgings, castings, stampings, composites, magnetic products and gears. Following the acquisition of BFL in CY2016, MCAL also gained strong traction in precision forged and machined automotive components for domestic two-wheeler and passenger vehicle segments. Its European operations, especially for MFE and CIE Galfor, consists of forged components, while Metalcastello is primarily engaged in the gears segment.

During Q2 CY2018, at a consolidated level, MCAL reported an operating profit of Rs. 291 crore on sales of Rs. 1,973 crore. During CY2017, at a consolidated level, MCAL reported an operating profit of Rs. 815 crore on an operating income of Rs. 6,520 crore.

Key financial indicators (audited)

Consolidated	CY2016	CY2017
Operating Income (Rs. crore)	5,320	6,520
PAT (Rs. crore)	169	358
OPBDIT/OI (%)	10.0%	12.5%
RoCE (%)	8%	12%
Total Debt/TNW (times)	0.4	0.3
Total Debt/OPBDIT (times)	2.6	1.5
Interest Coverage (times)	8.9	14.9

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2019 January 2019	Date & Rating in FY2019 August 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund-based/Non-Fund Based Facilities	Long-term	295.00	68.68	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-
2	Commercial Paper	Short-term	Rs.200.00 crore	Rs.0.00 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

Source: The company; Note: Fund based Amount outstanding as on December 2018.*

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	Current Rating and Outlook
NA	Fund-based/Non-Fund Based Facilities	-	NA	-	295.00	[ICRA]AA-(Stable)/ [ICRA] A1+
NA	Commercial Paper	-	NA	7-365 days	200.00	[ICRA]A1+

Source: The company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership**	Consolidation Approach
Stokes Group Limited	100.00%	Full Consolidation
Stokes Forging Dudley Limited	100.00%	Full Consolidation
Stokes Forging Limited	100.00%	Full Consolidation
Mahindra Forgings Europe AG	100.00%	Full Consolidation
Jeco Jellinghaus GmBH	100.00%	Full Consolidation
Gesenkschmiede Schneider GmBH	100.00%	Full Consolidation
Falkenroth Umformtechnik GmBH	100.00%	Full Consolidation
Schoeneweiss & Co. GmBH	100.00%	Full Consolidation
Bill Forge Pvt. Ltd.	100.00%	Full Consolidation
BF Precision Pvt. Ltd.	100.00%	Full Consolidation
Bill Forge DE Mexico S DE RL DE CV	100.00%	Full Consolidation
Metalcastello S.p.A	99.96%	Full Consolidation
CIE Galfor S.p.A	100.00%	Full Consolidation
UAB CIE LT Forge	100.00%	Full Consolidation
CIE Legazpi S.A.	100.00%	Full Consolidation

***ownership of MCAL as on December 31, 2017*

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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

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