

Cooper-Standard India Pvt. Ltd.

February 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/ Non fund-based Facilities	55.00	55.00	[ICRA]BB(Negative)/ [ICRA]A4; Downgraded from [ICRA]BBB+ (Stable)/[ICRA]A2
Total	55.00	55.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action takes into account the sharp deterioration in the financial performance of Cooper-Standard India Pvt. Ltd. (CSI) in FY2018, as evident from the company reporting operating loss besides certain exceptional items leading to large net loss. Notwithstanding healthy revenue growth in FY2018, CSI witnessed sharp increase in raw material and manufacturing expenses as well as higher level of rejections, while ramping up supplies against new business awards. Additionally, the company recognised certain one-time expenses, partially pertaining to prior period indicating weak management control systems. As per discussions with the management, CSI's operating performance is expected to continue to remain weak in FY2019 and FY2020. Moreover, the company's liquidity position weakened in FY2018 and 9M FY2019 with significantly higher levels of utilisation of fund-based working capital limits as well as increased creditor levels to support working capital requirements.

ICRA notes that CSI has taken external commercial borrowings (ECBs) from its parent company, Cooper Standard Automotive Inc. (CSAI, rated Ba3/ Stable by Moody's Investors Services). These ECBs have not been serviced as per original repayment terms. Both interest as well as repayment obligations against these ECBs have been rescheduled with the parent's concurrence.

The ratings continue to take into account the healthy business presence of CSI among the reputed clientele, which includes Tata Motors Limited (TML), Renault Nissan Automotive India Private Limited (Renault Nissan), Volkswagen India Private Limited (VW) and FCA India Automobiles Private Limited (Fiat) and steady market share in sealing system supplies to domestic passenger vehicle OEMs. The financial performance of the company has remained weak in FY2019 with CSI remaining significantly dependent on the parent's financial support. In the past, the parent has demonstrated a track record of financial support in the form of equity infusion as well as ECBs. The inability to ramp up supplies for select OEMs as well as higher rejections for new products could have an adverse impact on new business awards in the immediate term; the continued operational and technical support from the parent, coupled with management initiatives to improve the cost structure may support business recovery over the medium term.

The ratings are constrained by weak profitability and debt protection metrics as well as inadequate management systems and controls. High competitive intensity of the rubber profile business, with a large number of domestic ancillaries and entry of foreign players, also poses a challenge. Timely funding support from the parent and the company's ability to achieve sustainable improvement in the operating performance and market share would remain the key monitorable.

Outlook: Negative

The Negative outlook on the long-term rating reflects ICRA's expectation about CSI's weak operating performance that would also translate into cash losses in the near term. The outlook may be revised upward if the company is able to demonstrate sharp improvement in cost structure as well as strengthening of its business profile.

Key rating drivers

Credit strengths

Technological and operational support from parent - CSI has a track record of operational support from its parent, CSAI. Additionally, it benefits from the parent's relations with global OEMs, which are evident from its business awards for global platforms in India. CSI also benefits from access to technical support as well as product designs for Indian launches of global OEMs.

Expansive geographic footprint in proximity to customers - The company had set up manufacturing facilities in all major automotive locations of the country to be able to service its customer's requirements in a timely manner.

Credit challenges

Significantly weak financial risk profile - In an attempt to improve its business position in the rubber profile market with domestic PV OEMs, CSI witnessed significantly high product development costs as well as challenges in ramping up supplies that adversely impacted its financial performance. CSI reported operating loss of Rs 17.0 crore in FY2018 (PY: profit of Rs. 1.8 crore) on account of sharp increase in raw material costs, high employee cost and increased selling, general and administrative expenses. Moreover, the net loss in FY2018 stood at Rs. 95.6 crore due to certain extraordinary expenses recorded by the company. Amid operating losses and significantly high debt levels (including promoter advanced ECBs), the company's credit profile turned weak, as evident from the net worth shrinking to a mere Rs. 16.0 crore as of March 2018 and negative coverage indicators.

Weak management information system and controls – The recognition of high value prior period expenses in FY2018 towards launch of new programmes, as well as management fees, points to weak internal management information and control systems.

High competitive intensity – The rubber profile business faces high competitive intensity from a large number of domestic ancillaries and the entry of foreign players. This has necessitated competitive pricing for new launches, thereby impacting profitability indicators.

Vulnerability to fluctuations in raw material prices – The management has never been able to fully pass on the increase in raw material prices to its customers. This has made the company's profitability metrics vulnerable to fluctuations in raw material prices.

Liquidity position

The company's liquidity position remains stretched, which is reflected by a substantial asset-liability mismatch on its books, high levels of utilisation of its fund-based facilities and high creditor days to support its working capital requirements. Further, the cash position of the company weakened substantially from Rs. 16.6 crore of cash and liquid investments at the end of FY2017 to Rs. 2.8 crore at the end of FY2018. Given the tight liquidity profile of CSI, it has to depend on financial support from its parent to meet its interest obligations as well as capex requirements.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Rating Methodology for Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Cooper Standard Automotive Inc. (CSAI) The rating assigned to CSI factors in the very high likelihood of its parent, CSAI [rated Ba3, Stable by Moody's Investors Services] extending financial support to it because of close business linkages between them and holds entire equity stake. ICRA also expects CSAI to be willing to extend financial support to CSI, given its reputation sensitivity. There also exists a consistent track record of CSAI having extended timely financial support to CSI in the past, whenever the need has arisen.
Consolidation / Standalone	Not Applicable

About the company

CSI (formerly known as Metzeler Automotive Profiles India Private Limited) started operations from November 1993 by manufacturing high performance automotive body seal and glass runs. Over the past few years, the company has also diversified into manufacturing Thermoplastic Elastomer (TPE) profiles and chrome strips. CSI's plants are currently located at Bawal (Haryana), Sahibabad (Uttar Pradesh), Chennai and Sanand (Gujarat). Till January 2015, the company operated as a 74:26 joint venture between CSAI and Toyoda Gosei Company Limited, Japan (TGCL). However, effective January 30, 2015, CSAI acquired TGCL's stake in the company and CSI became a 100% subsidiary of CSAI.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	289.1	369.4
PAT (Rs. crore)	-14.6	-95.6
OPBDIT/OI (%)	0.6%	-4.6%
RoCE (%)	-2.3%	-44.8%
Total Debt/TNW (times)	2.6	9.5
Total Debt/OPBDIT (times)	87.1	-9.0
Interest coverage (times)	0.2	-1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Feb 2019	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Dec 2015
1 Fund Based Facilities	Long Term	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Fund Based/ Non-Fund Based Facilities	Short Term	-	-	-	-	[ICRA]A2	[ICRA]A2
3 Fund Based/ Non-Fund Based Facilities	Long Term/ Short Term	55.00	-	[ICRA]BB (Negative)/ [ICRA]A4	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-

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	Fund Based/ Non-Fund Based Facilities	NA	NA	NA	55.00	[ICRA]BB (Negative)/ [ICRA]A4

Source: Cooper-Standard India Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Anupama Arora

+91 124 4545 303

anupama@icraindia.com

Pradyumna Choudhary

+91 124 4545 342

pradyumna.choudhary@icraindia.com

Bishwarup Pakrasi

+91 124 4545 346

bishwarup.pakrasi@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

communications@icraindia.com

Helpline for business queries:

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

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

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) 2556 0194/ 6606 9999

© Copyright, 2019 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 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