Flometallic India Private Limited

March 27, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	80.00	80.00	[ICRA]A+ (Stable); Reaffirmed
Non-fund Based-Working Capital Facilities	30.00	30.00	[ICRA]A1+; Reaffirmed
Total	**110.00**	**110.00**	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings favourably factor in Flometallic India Private Limited's (FIPL) strong financial profile and its financial flexibility by virtue of being part of the larger T V Sundram Iyengar Group, being owned by four entities namely, ABI Showatech India Limited (ABI rated [ICRA]A+ (Stable) / A1+ holds 42.11% equity capital), Sundaram Finance Holdings Limited (SFHL - 40% equity capital), Brakes India Private Limited (BIPL holds 5.53% equity capital) and Turbo Energy Limited (TEL, rated [ICRA]A1+ holds 5.53% equity capital). On the operational front, the company shares a common marketing, purchase planning and vendor selection teams with BIPL, and derives ~40% of revenues from supplies to BIPL, ABI and TEL. The company has also had financial support in the form of unsecured loans from ABI and further financial support is expected from the group entities, if required, although FIPL does not require financial support currently due to its strong accruals and minimal capex plans going forward. The ratings also draw comfort from FIPL's healthy financial profile characterised by strong margins, conservative capitalisation and coverage indicators and comfortable liquidity position. FIPL's Total Debt / Operating profits stood at 0.4 times as of March 31, 2018 compared to 0.9 times as of March 31, 2017.

However, the ratings are constrained by FIPL's modest scale of operations and its relatively high customer concentration with ~46% of the revenues derived from ZF TRW Group in the export market. The company's revenues stood at Rs. 226.3 crore for 8M FY2019 and does not have any expansion plan in the medium term. However, diversification of customers through increased focus in the domestic market and the company's expected ability to source customers by being operationally linked to the larger BIPL provides some comfort. FIPL's margins also remain susceptible to volatility in raw material (RM) prices. However, passthrough on majority of the RM mitigates the risk to a large extent, as seen from the only 110 bps drop in operating margins during 8M FY2019 as compared to FY2018 despite the ~30% year-on-year increase in RM prices (steel scrap) during FY2018. FIPL's effective forex hedging policy mitigates the risk arising from forex fluctuations to a large extent.

Outlook: Stable

ICRA expects FIPL's capacities to operate at optimum utilizations and its margins to remain strong over the medium term. The company is likely to continue supplying to established players in the overseas markets and receive technical/business support from group entities/shareholders. The outlook may be revised to 'Positive' upon significant increase in scale and margins, without deterioration in debt level or liquidity position. The outlook may be revised to 'negative' if the company's revenues/margins are weaker-than-expected, or if FIPL's debt increases significantly – either due to working capital stretch or capex – and there is deterioration in the company's liquidity position.

Key rating drivers

Credit strengths

Healthy financial profile characterised by comfortable capitalisation and coverage indicators – FIPL's revenues registered healthy growth of 12.1% during FY2018 and 17.9% during 8M FY2019, supported by steady order inflows across the domestic and export markets. FIPL's operating and net margins continued to be strong at 20.5% and 10.3% respectively during 8M FY2019. FIPL's capital structure and coverage indicators remained comfortable with Total Debt / Operating profits at 0.4 times as of March 31, 2018 compared to 0.9 times as of March 31, 2017. FIPL has repaid the unsecured loans availed from group concerns during FY2018 and has no long-term debt obligations as on date. The company's liquidity position remains comfortable with working capital utilization of ~25% and minimal capex/nil repayments. FIPL's financial profile is likely to remain strong over the medium term.

Strong financial flexibility and demonstrated support from promoter group – The company is part of the larger TVS Group. FIPL is an associate company of ABI and SHFL due to the shareholding and an associate of BIPL due to the significant operational linkages. FIPL receives technical/business support from BIPL by way of common marketing, purchase planning and vendor selection functions for which the company pays ~1.5% of the sales turnover. In the domestic segment, which contributed to 53% of FIPL's revenues during 8M FY2019, the company mainly supplies to the Group companies like ABI, BIPL and TEL. The other Group companies like ABI and TEL have provided financial support in the past by way of unsecured loans which were prepaid on time. The promoter Groups have indicated willingness to lend further financial support to FIPL, if required. Going forward, the strong operational/financial linkages with the promoter groups and steady order inflow are likely to support FIPL's business profile and financial flexibility.

Credit challenges

Modest capacity and revenues; no expansion plans in the near term – FIPL is a relatively modest scaled player, with revenues of Rs. 299.4 crore in FY2018 and Rs. 226.3 crore in 8M FY2019. The company operates out of a single manufacturing unit at Gujarat and has an installed capacity of 36,000 tonne per annum and comprises of ~25% of BIPL's total foundry capacity. Despite the high capacity utilisation of around 83% in FY2018 (Previous Year: 77%), the management is not looking at increasing capacities in this foundry and plans to cater to additional requirements from other foundries of BIPL and its subsidiary. While the revenues are exposed to the demand cyclicality of the domestic and European passenger vehicle industries, the modest capacities mitigate the risk of underutilization to a large extent.

Fairly high customer-concentration– FIPL derived ~46% of its revenues in 8M FY2019 from the ZF TRW Group (world's leading manufacturer of braking systems). This exposes the company to revenue risks arising from loss of the client to competition. However, diversification of customers through increased focus in the domestic market and the company's expected ability to source customers by being operationally linked to the larger BIPL provides some comfort.

Margins remain exposed to volatile RM prices and exchange rates – FIPL's margins continue to be exposed to the volatility in commodity prices and exchange rates. While the company's passthrough arrangement with its customers on steel scrap (~90% of RM) has buffered volatility in margins to a large extent, its effective forex policy to cover ~70% of the forex exposure, has mitigated the forex related risk also to an extent. Despite the 30% increase in steel prices in FY2018, the company's operating margins have remained stable at upwards of 20%.

Liquidity Position

FIPL's liquidity position has remained comfortable with healthy cash flows and low debt levels over the past five years. The working capital utilization has remained low at 24.9% of the sanctioned limits for the period from December 2017 to

November 2018. The company has no long-term debt obligations as on date. With limited capex plans over the medium term, FIPL's liquidity position is likely to remain strong over the medium term.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	The ratings draw comfort from the operational and financial linkages with Brakes India Private Limited, ABI Showatech India Limited (rated [ICRA]A+ (Stable) / A1+) and Turbo Energy Limited (rated [ICRA]A1+)
Consolidation / Standalone	Standalone

About the company

Incorporated in 2010, Flometallic India Private Limited (FIPL) is engaged in manufacturing castings that are used in several applications including brake calipers, steering knuckles, turbine housing, bearing housing, bearing caps, etc. The company belongs to the larger T.V. Sundaram Iyengar (TVS) group of companies – an established name in the domestic auto ancillary industry. FIPL caters to the foundry requirements of BIPL and its customers indirectly. FIPL's customers include group concerns like BIPL, ABI, TEL, etc. in the domestic segment (53% of revenues in 8M FY2019) and ZF TRW Group (~46% of revenues in 8M FY2019) in the export market. The company commenced operations in 2012 with an 18,000-MTPA manufacturing capacity at Jhagadia, Gujarat. It doubled its capacity during FY2016 and at present, has a production capacity of 36,000 MTPA.

Key financial indicators (audited)

Standalone	FY2017	FY2018
Operating Income (Rs. crore)	267.1	299.4
PAT (Rs. crore)	26.3	33.6
OPBDIT/OI (%)	20.4%	21.6%
RoCE (%)	25.5%	31.5%
Total Debt/TNW (times)	0.4	0.2
Total Debt/OPBDIT (times)	0.9	0.4
Interest coverage (times)	10.3	31.0

Source: Flometallic India Private Limited

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 March 2019**	**Date & Rating in FY2018 January 2018**	**Date & Rating in FY2017 -**	**Date & Rating in FY2016 -**
1	Overdraft/ WCDL/ Export credit / Sales invoice discounting *	Long Term	80.00	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-
2	Letter of credit / Bank Guarantee	Short Term	30.00	-	**[ICRA]A1+**	**[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

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	Overdraft/ WCDL/ Export credit / Sales invoice discounting *	NA	NA	-	80.00	[ICRA]A+ (Stable)
NA	Letter of credit / Bank Guarantee	NA	NA	-	30.00	[ICRA]A1+

* If the facility is used as WCDL/Export credit / Sales Invoice discounting, then short term rating of [ICRA]A1+ shall apply accordingly.

Source: Flometallic India Private Limited

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