

Moflex Suspensions LLP

April 04, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	9.00	9.00	[ICRA]BBB+ (Stable); Reaffirmed
Fund Based - EPC/FBD#	(5.00)	(5.00)	[ICRA]BBB+ (Stable); Reaffirmed
Fund Based - Term Loans	4.50	4.50	[ICRA]BBB+ (Stable); Reaffirmed
Non-fund Based - Bank Guarantee	0.75	0.75	[ICRA]A2+; Reaffirmed
Total	14.25	14.25	

Sublimit of CC facility

* Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings continues to factor in the long-standing experience of the promoters and the established track record of the Vikrant Group (which includes Vikrant Auto Suspensions (VAS), Moflex Suspensions LLP (MSL) and Tristar International) in the springs manufacturing industry, spanning more than five decades. The ratings also factor in Group's established business relations with reputed original equipment manufacturers (OEMs) including Mahindra & Mahindra Limited (M&M). The ratings also favourably factor in the stable financial profile of the Group with a comfortable capital structure and coverage indicators.

The ratings are, however, constrained by the high client concentration risk with the top customer, M&M, accounting for a major portion of the sales, though the same is mitigated by the Vikrant Group's stable share of business with M&M over the years. The ratings are further constrained by the vulnerability of the firm's profitability to fluctuations in steel prices, which is a major raw material, especially in export and aftermarket sales, where no escalation clause is present unlike in OEMs. Further, the operations are exposed to the inherent cyclical nature in the automobile industry, which is the Group's main end-user segment. ICRA also notes the capital withdrawal risk associated with a partnership firm and the history of capital withdrawals in the Group.

Outlook: Stable

ICRA believes that the Group will continue to benefit from its technical expertise and established relationship with reputed OEMs. The outlook may be revised to Positive if a substantial improvement in the revenue, profitability and coverage indicators strengthens the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected or if higher-than-expected debt-funded capex impacts the capital structure or higher-than-expected capital withdrawals weaken the credit profile and overall liquidity.

Key rating drivers

Credit strengths

Established operational track record of Vikrant Group - MSL is part of the Vikrant Group, whose promoters have more than five decades of experience in the automotive springs manufacturing business. Further, MSL has an operational track record of more than two decades in automotive springs manufacturing.

Long-standing relationship with reputed OEMs - The firm enjoys established relationships with key OEMs like M&M and Tata AutoComp Systems Ltd (TACO) with a preferred vendor status.

Financial risk profile marked by comfortable capital structure and coverage indicators – The Vikrant Group’s capital structure remained comfortable with a gearing of 0.7 times as on FY2018-end as against a gearing of 0.6 times as on FY2017. Further, the debt coverage indicators remained comfortable, as reflected by interest coverage of 13.0 times, DSCR of 8.3 times and total debt/OPBDITA of 1.2 times as on FY2018-end as against interest coverage at 13.4 times, DSCR at 6.4 times and total debt/ OPBDITA at 0.8 times as on FY2017-end.

Credit challenges

High client and segment concentration risk and exposure to industrial cyclicality - M&M is the single largest customer of MSL and of Vikrant Group as a whole. It contributed 56% to the Group’s total sales in FY2018. Further, Tristar International and M&M accounted for ~37% and ~26%, respectively, of MSL’s total sales in FY2018. However, the Group’s long-standing relationship with M&M mitigates the risk to some extent. Further, MSL’s revenues are mostly concentrated in the medium and heavy commercial vehicle segment (M&HCV). The firm is in the final process of adding a few new OEMs to its portfolio in the current fiscal, which is likely to help diversify its client concentration. MSL is also exposed to the cyclicality associated with the automobile industry.

Profitability to remain susceptible to volatility in steel prices - Steel flats account for around 90% of the firm’s total raw material cost. Hence, Group’s profitability remains exposed to the fluctuations in steel prices. While the presence of an escalation clause in the orders from most of the OEMs provides some comfort, the profitability remains vulnerable to exports, wherein no such clause exists.

Risk associated with partnership firm - The constitution of MSL was changed to limited liability partnership in October 2017 from private limited. Any substantial capital withdrawal, given the partnership nature of the firm’s constitution, could impact the net worth and gearing level.

Liquidity position

Fund flow from operations and cash flow from operations remained positive for both VAS and MSL with low interest expense along with low incremental working capital requirement. The working capital limits utilisation for both remained moderate in the last 12 months at 63% and 76%, respectively. The liquidity is expected to remain adequate and will be supported by cash accruals, given the low debt repayment obligations and the absence of any major capex in the medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of Vikrant Auto Suspensions, Moflex Suspensions LLP and Tristar International, given the close business, financial and managerial linkages among them

About the firm:

Moflex Suspensions LLP (MSL) was incorporated in 1995 as Moflex Suspensions Private Limited and was subsequently converted into an LLP in October 2017. It manufactures and markets leaf springs and parabolic suspension springs for OEMs in the domestic market as well as for replacement markets such as the US, Europe and Australia. The manufacturing plant is located near Vadodara, Gujarat and has an installed capacity of manufacturing 9,600 metric tonnes per annum (MTPA) of automotive springs. The firm has undertaken capex to expand the capacity to 11,280 MTPA in FY2019.

MSL is a part of the Vikrant Group, which manufactures multi-leaf and parabolic automotive springs. Its promoters have more than five decades of experience in automotive suspension manufacturing. Apart from MSL, the Group comprises Vikrant Auto Suspensions (VAS), the flagship entity, which manufactures multi-leaf automotive suspension spring and was established in 1985, and Tristar International, an export-oriented marketing firm that was established in 1999.

In FY2018, the Group reported a net profit of Rs. 11.0 crore on an operating income (OI) of Rs. 165.3 crore against a net profit of Rs. 13.9 crore on an OI of Rs. 140.9 crore in FY2017.

Key financial indicators

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	64.2	67.6	140.9	165.3
PAT (Rs. crore)	3.5	2.4	13.9	11.0
OPBDIT/ OI (%)	11.0%	7.7%	16.3%	12.4%
RoCE (%)	26.9%	17.6%	43.9%	34.4%
Total Debt/ TNW (times)	0.6	0.6	0.6	0.7
Total Debt/ OPBDIT (times)	1.2	1.9	0.8	1.2
Interest Coverage (times)	9.0	7.9	13.4	13.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 January 2017
1 Cash Credit	Long Term	9.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2 Term Loan	Long Term	4.50	0.80	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3 Bank Guarantee	Short Term	0.75	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
4 EPC/PCFC	Long Term	(5.00)*	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)

* Sublimit of cash credit

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	Cash Credit		NA	-	9.00	[ICRA]BBB+ (Stable)
NA	EPC/FBD		NA	-	(5.00)*	[ICRA]BBB+ (Stable)
NA	Term Loans	Feb, 18	NA	Dec, 23	4.50	[ICRA]BBB+ (Stable)
NA	Bank Guarantee		NA	-	0.75	[ICRA]A2+

Source: Moflex Suspensions LLP, * Sublimit of cash credit

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Mayank Agrawal
+91 79 4027 1514
mayank.agrawal@icraindia.com

Sagar Vora
+91 79 4027 1547
vora.sagar@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:

+91-9354738909 (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) 2556 0194/ 6606 9999

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