

## Moflex Suspensions LLP

April 22, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	9.00	12.00	[ICRA]BBB+ (Stable); Assigned/Outstanding
Fund Based - EPC/FBD#	(5.00)	(5.00)	[ICRA]BBB+ (Stable); Outstanding
Fund Based - Term Loans	4.50	4.50	[ICRA]BBB+ (Stable); Outstanding
Non-fund Based - Bank Guarantee	0.75	0.75	[ICRA]A2+; Outstanding
<b>Total</b>	<b>14.25</b>	<b>17.25</b>	

# 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 cyclicity 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
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:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				April 2019	April 2018	-	January 2017	
1	Cash Credit	Long Term	12.00	-	[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](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	Cash Credit	-	NA	-	12.00	[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

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