

## HMC MM Auto Limited

	Amount (Rs. In Crore)	Rating Action
		<b>March 2016</b>
Term Loans	20.00	[ICRA]AA (Stable) <i>reaffirmed</i>
Overdraft	7.50	[ICRA]AA (Stable) <i>reaffirmed</i>
Letter of Credit	7.50	[ICRA]A1+ <i>reaffirmed</i>
Unallocated	5.00	[ICRA]AA (Stable)/[ICRA]A1+ <i>reaffirmed</i>
<b>Total</b>	<b>40.00</b>	

ICRA has reaffirmed the long-term rating at [ICRA] AA (pronounced ICRA Double A) and the short-term rating at [ICRA] A1+ (pronounced ICRA A One plus) for the Rs. 40.00 Crore<sup>1</sup> Lines of Credit of HMC MM Auto Limited (“HMCMM” or “the company”)<sup>†</sup>. The outlook on the long term rating is “Stable”.

The reaffirmation of ratings takes into account the strong parentage of HMCMM, being a joint venture between Hero MotoCorp Limited (HMCL) (rated [ICRA]AAA (Stable)/ [ICRA]A1+) and Magneti Marelli S.p.A. (MM, subsidiary of Fiat S.p.A.). By virtue of its European parent being a global leader in technology of automotive electronic products and supplier of fuel injection systems to global automotive players, HMCMM derives strong support in improving its technological capabilities and developing products suitable for the Indian environment and market conditions. The ratings also factor in the assured business volumes from its Indian parent which mitigates off-take risks for the company with HMCL positioned as the dominant two-wheeler manufacturer in India. Further, with BS VI emission norms proposed to be implemented in India from 2020, two-wheeler manufacturers would be required to adopt EFI technology, highlighting the strong growth prospects for the company in the long term. ICRA also takes note of the financial support extended by the JV partners, with periodic equity infusion planned to support the company in its capacity expansion and indigenization plans, till its operations stabilize.

The ratings, are however, constrained by risks typical to Greenfield projects, including risks of cost overruns and delays in execution of planned capital expenditure. The company has already been delayed in commencing its commercial operations, though the same has not resulted in any significant cost overruns. Nevertheless, further delay may increase the project cost and require higher than support budgeted. The company also faces some risks on account of being a single-product and single-customer company. Although customer concentration risks are largely mitigated by the leadership status maintained by its single customer, HMCL, in the Indian two-wheeler market; delays in implementation of emission norms in India could affect the scale up plans of the company as it is dependent solely on sale of EFI systems for its revenues. With high import content in its products, the company’s profitability also remains exposed to adverse foreign exchange movements, though phase-wise indigenization planned moderates this risk over the medium term. The rating decision also factors in the company’s sizeable capital expenditure plans over the medium term which would result in higher dependence on external financing and increased debt on its books; however, expected equity infusion by the promoters and capital subsidies received under the M-SIPS scheme<sup>2</sup> (approval received in June 2015) would keep the capital structure of the company comfortable till the company scales up its operations adequately.

Over the medium term, the ratings would be dependent on the project’s progression in a timely manner without significant cost overruns. The ability of the company to scale-up its operations and achieve break-even volumes would also remain important as internal accruals are expected to fund long term capex plans in future

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup>“For complete rating definition please refer to the ICRA website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications”

<sup>2</sup> The Modified Special Incentive Package Scheme (M-SIPS), under the Department of Electronic and IT under the Ministry of Communication, is available for both new projects and expansion projects. The scheme provides subsidy for investments in capital expenditure – 20% in SEZs and 25% in non-SEZs. It also provides for reimbursement of CVD/Excise for capital equipment for the non-SEZ units. For high technology and high capital investment units, like fabs, reimbursement of central taxes and duties is also provided. The incentives are available for investments made in a project within a period of 10 years from the date of approval.

phases of the project without compromising the capital structure. These remain key rating sensitivities and would be monitored.

#### **Company Profile**

HMC MM Auto Limited is a 60:40 JV between Hero MotoCorp Limited (HMCL) and Magneti Marelli S.p.A (MM), incorporated to design, develop, manufacture, distribute, assemble, buy, and sell electronic fuel injection (EFI) systems and related components and sub-assemblies. The Company inaugurated its manufacturing unit on March 25, 2015 and is yet to commence its commercial operations. The product range includes EFI Systems featuring sMIU<sup>3</sup>, MIU and state of the art Ride-by-wire RIU systems covering two wheelers across engine capacities ranging from 50cc to 250cc models.

#### **Recent Results**

As per provisional financials, HMCMM reported a net loss of Rs 7.9 Crore in 9M FY2016. As per audited financials, the company reported an operating income of Rs 0.0 Crore, OPBIDTA of Rs -3.1 Crore, and PAT of Rs -2.9 Crore during FY2015.

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<sup>3</sup> The Smart Mechatronic Integrated Unit was specifically designed for "entry-level" vehicles fitted with single-cylinder air-cooled engines that are converted from carburettor supply to injection system. Mechatronic system is designed to support the "traditional" architecture; it integrates the number of components like throttle body, air temp sensor, pressure sensor etc in the same unit.

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