

July 07, 2020

Moflex Suspensions LLP: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	12.00	12.00	[ICRA]BBB+ Reaffirmed; outlook revised to Negative from Stable
Fund Based - EPC/FBD#	(5.00)	(5.00)	[ICRA]BBB+ Reaffirmed; outlook revised to Negative from Stable
Fund Based - Term Loans	4.50	4.50	[ICRA]BBB+ Reaffirmed; outlook revised to Negative from Stable
Non-fund Based - Bank Guarantee	0.75	0.75	[ICRA] A2+ Reaffirmed;
Total	17.25	17.25	

#Sublimit of CC facility

*Instrument details are provided in Annexure-1

Rationale

The revision in the rating outcome factors in the expected weak demand in the auto ancillary industry in the near to medium term, caused by the weak macroeconomic environment compounded by the Covid-19 pandemic. The Group revenue and profitability declined by ~18% in FY2020 from that of FY2019, with further fall expected in FY2021. Additionally, the high capital withdrawals in FY2020 have resulted in negative cash accruals. The ratings continue to factor in the high client concentration risk, with the top customer, M&M, accounting for the major sales share. The ratings also remain constrained by the vulnerability of the firm's profitability to fluctuations in steel prices (being the major raw material) and the partnership structure of the entity, wherein substantial capital withdrawals may adversely impact the capital structure and the liquidity profile.

The ratings, however, continue to favourably 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 the Group's established business relationship with reputed original equipment manufacturers (OEMs) such as Mahindra & Mahindra Limited (M&M) and the Vikrant's Group comfortable capital structure, coverage indicators and liquidity.

Key rating drivers and their description

Credit strengths

Established operational track record of Vikrant group: VAS is a part of the Vikrant Group, whose promoters have more than five decades of experience in the automotive springs manufacturing business. Further, VAS has an operational track record of more than three decades in the automotive springs manufacturing.

Longstanding relationship with reputed OEMs: The firm enjoys established relationship with key OEMs such as Mahindra & Mahindra Limited and Force Motors Ltd. with a preferred vendor status.

Comfortable capital structure and coverage indicators: Vikrant Groups' capital structure continued to be comfortable, with a gearing of 0.4 times as on FY2020-end (provisional financials) as against a gearing of 0.4 times as on FY2019-end. Further, the debt coverage indicators, though deteriorated, continued to be comfortable, as reflected by the interest coverage at 8.5 times, DSCR at 4.3 times and total debt/ OPBDITA at 1.1 times as on FY2020-end (provisional financials) as against interest coverage at 15.0 times, DSCR at 11.0 times and total debt/ OPBDITA at 0.6 times as on FY2019-end.

Credit challenges

Decline in revenue and profitability in FY2020; outlook for FY2021 remains bleak- Due to weak demand and outlook for the auto ancillary industry along with the lockdown due to Covid-19 pandemic, the Group witnessed a revenue decline of ~18% in FY2020, with VAS registering ~21% decline in sales to Rs. 67.6 crore in FY2020 from Rs. 85.3 crore in FY2019. The revenue for FY2021 is expected to decline further due to lockdown in Q1FY2020 and expected demand disruption in the auto industry because of the pandemic. Further, with a decline in sales and consequent under absorption of fixed cost along with volatile steel prices (main raw material) the Group's operating profit margin (OPM) moderated significantly to 8.7% in FY2020 (provisional financials) from 13.6% in FY2019. MSL registered 200 basis point decline in OPM to 4.9% in FY2020 (provisional financials) from 6.9% in FY2019 and is expected to remain weak in FY2021 also.

High client and segment concentration risk and exposure to industrial cyclicality - M&M is the single largest customer of VAS and of Vikrant group as a whole. It contributed 46% to the Group's total sales in FY2019, with VAS' sales concentration towards M&M remaining at ~32% of the total sales; however, the Group's longstanding relationship with M&M mitigates the concentration risk to some extent. Further, VAS' revenue is mostly concentrated on medium and heavy commercial vehicle segment (M&H CV). The Group continues to maintain its focus on diversifying its customer profile, which is likely to help the firm to diversify to a moderate extent in the medium term. Further, VAS continues to be exposed to industry 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: Over the years, the partners have withdrawn the capital in VAS. Additionally, the high capital withdrawals in FY2020 have resulted in negative cash accruals.

Liquidity position: Adequate

The liquidity profile of the Group is expected to remain adequate because of limited repayments and cushion available in the working capital limits. However, the liquidity position will remain contingent on any sizeable capital withdrawal, given the Group's consistent history of capital withdrawal.

Rating sensitivities

Positive triggers – The outlook may be revised to stable if there is a revival in the industry outlook, leading to substantial growth in revenue and profitability on a sustained basis.

Negative triggers – Negative pressure on the ratings could arise if a substantial decline in revenue and profitability puts pressure on cash accruals or any further stretch in the working capital cycle or higher-than-expected capital withdrawal results in pressure on the liquidity.

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 Company

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 21,000 tonnes per annum (MTPA) (Increased from 9,600 MTPA in FY2020) of automotive springs.

The firm is a part of the Vikrant Group, which manufactures multi-leaf and parabolic automotive springs. The promoters have more than five decades of experience in the springs manufacturing business. Apart from VAS, the Group comprises another leaf spring and parabolic suspension spring manufacturing company, Moflex Suspensions LLP (MSL), and an export-oriented marketing firm 'Tristar International'.

In FY2019, the Group reported a net profit of Rs. 17.4 crore on an operating income (OI) of Rs. 211.0 crore as against a net profit of Rs. 11.0 crore on an OI of Rs. 165.3 crore in FY2018. Further, the Group achieved a net profit of Rs. 7.4 crore on an OI of Rs. 173.8 crore in FY2020 on a provisional basis.

Key financial indicators (audited)

	Standalone			Consolidated		
	FY2018	FY2019	FY2020*	FY2018	FY2019	FY2020*
Operating Income (Rs. crore)	67.6	85.3	67.6	165.3	211.0	173.8
PAT (Rs. crore)	2.4	2.8	0.4	11.0	17.4	7.4
OPBDIT/ OI (%)	7.7%	6.9%	4.9%	12.4%	13.6%	8.7%
RoCE (%)	17.6%	18.8%	5.9%	34.4%	45.6%	21.9%
Total Debt/ TNW (times)	0.6	0.5	0.5	0.7	0.4	0.4
Total Debt/ OPBDIT (times)	1.9	1.7	2.7	1.2	0.6	1.1
Interest Coverage (times)	7.9	5.5	2.9	13.0	15.3	8.5
DSCR	5.3	4.8	1.5	8.3	11.0	4.3

* Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					07-July-2020	22-Apr-2019	04-Apr-2019	05-Apr-2018	-
1	Cash Credit	Long Term	12.00	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Term Loan	Long Term	4.50	3.54	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Bank Guarantee	Short Term	0.75	-	[ICRA] A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	EPC/PCFC	Long Term	(5.00)*	-	[ICRA]BBB+ (Negative)/	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-

Amount in Rs. crore;

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

Source: Moflex Suspensions LLP; * Sublimit of cash credit

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