

April 27, 2023

Mahindra CIE Automotive Limited: Long-term rating upgraded to [ICRA]AA; short-term rating reaffirmed at [ICRA]A1+; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term /short-term – Fund based /non Fund based – Working capital facilities	580.0	575.0	[ICRA]AA (Stable)/ [ICRA]A1+; long-term rating upgraded from [ICRA]AA-; short-term rating reaffirmed; outlook revised to Stable from Positive
Commercial paper	200.0	200.0	[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated limits	10.0	0.0	-
Total	790.0	775.0	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating of Mahindra CIE Automotive Limited (MCIE or the company) reflects the steady improvement in its business and financial risk profiles, and expectations of this to continue, aided by its strong market position and continued focus on maintaining profitability, even in an inflationary environment. The company has been reporting healthy volume offtake across key business segments, outperforming the underlying market consistently supported by addition of new customers and increasing wallet share with its existing customers. This has resulted in healthy revenue expansion for MCIE, which, coupled with focus on its profitability, has supported it in reporting a healthy margin profile as well as improvement in its core return indicators. Presence across multiple technologies, segments and geographies is expected to enable MCIE to maintain its revenue growth momentum and healthy profitability, going forward as well. The ratings also factor in the reduction in MCIE's overall debt levels, to Rs. 1,486.9 crore (as on December 31, 2021) and further to Rs. 984.5 crore (as on December 31, 2022), from Rs. 1,899.5 crore (as on December 31, 2020), which, coupled with healthy cash and liquid investments balance has led to a net cash surplus position for the company as on December 31, 2022.

ICRA also takes note of the company's strategic decision to sell off its German forging operations, given its lower margin profile vis-à-vis the other businesses. Therefore, the disposal of the business is expected to result in a better margin profile, albeit on a lower scale of operations. Nevertheless, ICRA will continue to monitor developments on this front, including the contours of the transaction such as the deal value and its timelines, and credit implications of the same.

The ratings continue to factor in MCIE's large scale of operations, comfortable leverage and coverage indicators and its well-diversified presence across geographies, products, end-user industries including the passenger vehicles (PVs), commercial vehicles (CVs), two-wheelers (2Ws) and off-highway segments. MCIE is expected to continue to benefit from CIE Automotive SA's (CIE) strong technological expertise, along with its established relationships with global original equipment manufacturers (OEMs), which support its business prospects.

The ratings, however, remain constrained by MCIE's subdued return indicators (RoCE) compared to its peers in a similar rating category, primarily due to sub-par performance of the German forging business. However, the return indicators are expected to improve going forward, as the company's plans to sell off this business materialises. The ratings also note the inherent cyclicity in the global automotive industry and its impending electrification, which may impact the company's revenue and profitability over the medium to long term as some part of its product portfolio comprises engine-specific components. However, MCIE's efforts to adapt to the electric vehicle (EV) space through onboarding EV clients (mainly PV clients in Europe

and 2W and 3W clients in India), focus on aluminium casting products (which are important in the lightweighting strategy of EV OEMs) and developing powertrain-neutral products, etc., are expected to help mitigate this risk, going forward.

While ICRA expects MCIE to maintain its strong credit profile even through any organic or inorganic investment plans, ICRA would evaluate the impact of any such investments on a case-by-case basis. Any large debt-funded acquisition or greenfield expansion, which can have a material impact on MCIE's credit profile will remain a rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's expectation that MCIE will continue to benefit from being a part of the CIE Group, given the technological and financial support provided by the Group to MCIE over the years and continue to maintain strong business and financial risk profiles.

Key rating drivers and their description

Credit strengths

Operational and managerial support from CIE Automotive SA; synergies from CIE's global operations – Being one of the largest global automotive component suppliers, CIE enjoys a diversified automotive footprint across multiple geographies and product segments, such as forgings, castings and stampings and provides MCIE with ample access to operational and technological support. Moreover, MCIE enjoys strategic importance for CIE's global operations as the auto component division for the South Asian and South-East Asian markets. MCIE is expected to continue to benefit from CIE's strong technological expertise along with established relationships with global OEMs.

Well-diversified operations in terms of products, geographical reach, clientele and industry segments – MCIE is present across six business segments—forging, stamping, casting (iron and aluminium), gears, composite and magnetic products, and caters to multiple automotive segments including the PV, CV, tractors, 2W and off-highway segments. Further, MCIE is well diversified in terms of its geographical revenue base, including India (contributed 64% of revenues in CY2022) and Europe (contributed 36% of revenues in CY2022), as well as in terms of clients, catering to several reputed automotive OEMs in India as well as Europe.

Large scale of operations; among top auto component suppliers in India – In terms of revenues, MCIE is among the largest auto component suppliers in India. In Europe, it is one of the leading suppliers for forged components for the PV and off-highway segments. MCIE's position as a leading auto-component supplier, along with its established track record, help the company in client retention and acquiring new customers across the key business segments.

Healthy and improving capital structure and coverage metrics – Despite multiple acquisitions in the past, MCIE's leverage and coverage indicators remain comfortable with a gearing of 0.2 times as on December 31, 2022 and Net Debt/OPBIDTA of 0.3 times and an interest cover of 51.6 times during CY2022. With expected annual cash accruals of over Rs. 600 crore likely to remain sufficient to meet its capital expenditure requirements of ~Rs. 500-600 crore annually, its dependence on external borrowings is likely to remain minimal, and the company's credit profile is likely to further strengthen over the medium term. Given the healthy accruals generation and funding support received from related parties, MCIE's dependence on external borrowings to meet its long-term funding requirements is expected to remain limited over the near to medium term.

Credit challenges

Exposure to cyclicity in automotive industry – The auto supplier industry remains vulnerable to the cyclicity inherent in the automotive industry and the pricing pressures faced by auto suppliers from large OEMs. Nevertheless, MCIE's presence across multiple end-user segments (PVs, CVs, 2Ws, tractors, off-road) and geographies (India and Europe) provides some comfort against any segment-specific or geography-specific risks. Nevertheless, the company's ability to navigate segment-specific and region-specific challenges and maintain its strong profitability and credit metrics would remain monitorable.

Impending electrification of automotive industry may impact revenues and profitability – The trend in electrification that is evident in the automotive industry, both domestically and globally, has the potential to impact the company's revenues and profitability over the medium to long term, especially as some part of its product portfolio caters specifically to internal

combustion engines (ICEs). CIE Galfor, one of the most profitable business operations within the Mahindra CIE Group, primarily caters to the crankshaft requirement in the European PV segment, which is reporting relatively faster adoption of EVs. Accordingly, with around 10-15% of its business dependent on ICE components (on a consolidated basis), the company is exposed to electrification risks. Nevertheless, MCIE's efforts to gradually diversify into the EV space by targeting new EV products and EV customers, and orders secured in this regard, are expected to partially offset the said impact.

Environmental and Social Risks

Environmental considerations: Even as MCIE is not directly exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with the bulk of its product portfolio being used across different fuel powertrains, its automotive-manufacturer customers remain highly exposed to the same; accordingly, MCIE's prospects remain linked to the ability of its customers and suppliers to meet tightening emission requirements. The company may need to continue to invest materially to develop products to cater to electric vehicles, even as a transition towards the same in the segments catered to by MCIE, is likely to be only gradual, especially for Indian operations. The company is continually taking measures to reduce its carbon emissions, and presently procures around 60-65% of its overall electricity from green (solar) sources in India.

Social considerations: MCIE, like most automotive component suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption-free operations for the entity. Another social risk that MCIE faces pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, MCIE's experience in catering to leading automotive manufacturers globally underpins its ability to mitigate these risks, to an extent.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by large, unencumbered cash and liquid investments of around Rs. 630 crore (consolidated) and sizeable buffer of around Rs. 285 crore (standalone) in the form of undrawn bank lines as of December 2022. The liquidity profile is further enhanced by healthy cash generation of ~Rs. 1,000-1,200 crore per annum, at a consolidated level. As against these, the company plans for capex of ~Rs. 500-600 crore annually and has debt repayment obligations of around Rs. 40-50 crore in CY2023.

Rating sensitivities

Positive factors – An upgrade of the long-term rating will remain contingent upon a sizeable scaling up of operations, coupled with a further diversification in its business profile, while continuing to maintain comfortable profitability, liquidity and coverage indicators.

Negative factors – The ratings may be revised downwards, in case of any significant deterioration in the profitability and credit metrics of the company on account of weakness in demand across the automotive industry, or due to any large debt-funded capex/investments, which adversely impacts its credit profile. A specific credit metric for a downgrade would be Net Debt/OPBDITA above 1.0 times, on a sustained basis.

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	For arriving at the ratings, ICRA has considered the consolidated financials of MCIE. As on December 31, 2022, the company had six subsidiaries and eight step-down subsidiaries, which are all listed in Annexure-2.

About the company

MCIE is part of the global auto component player, CIE Automotive Group, based out of Spain. The company was earlier known as Mahindra Forgings Limited (part of the Mahindra Systech division) and was later renamed, following the integration of the Mahindra Group's Systech business¹ with CIE's operations, which was announced in 2013. The complete integration was achieved in FY2015 during which Mahindra Forgings (India & Europe), Mahindra Ugine Steel (MUSCO), Mahindra Investment (Gears division), Mahindra Hinoday and the European forging division of CIE (CIE Galfor, Spain) were combined into a single entity - MCIE. At present, MCIE has operations in Germany, Italy, Spain, Lithuania and India.

Apart from its strong presence in forgings, MCIE is among the largest ductile iron casting and compression moulded auto component manufacturers in India. Its standalone operations consist of six product segments—forgings, castings (iron and aluminium), stampings, composites, magnetic products and gears. Following the acquisition of Bill Forge Private Limited in CY2016, the company gained strong traction in precision forged and machined automotive components for the domestic 2W and PV segments. Its European operations comprise largely of forged components, while Metalcastello is primarily involved in the gears segment. In April 2019, the company completed the acquisition of Aurangabad Electricals Limited (AEL), which helped it to enter the aluminium die-casting business in the Indian market. In the previous fiscal, the company announced its plans to sell off the Germany forging business (CIE Forgings Germany/CFG).

Key financial indicators

MCIE Consolidated	CY2021 Audited ¹	CY2022 Audited ¹
Operating Income (Rs. crore)	6,765.2	8,753.0
PAT (Rs. crore)	391.6	-138.4*
OPBDIT/OI (%)	13.9%	13.4%
PAT/OI (%)	5.8%	-1.6%*
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	1.6	0.8
Interest Coverage (times)	27.1	51.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ¹ CY2021 and CY2022 both exclude CFG in the P&L; Balance sheet for December 2022 is adjusted for the proposed sale (with assets and liabilities classified as held for sale, but same is not reflected in the December 2021 balance sheet; * after exceptional, non-cash loss on fair valuation of assets and liabilities of disposal group of Rs. 923.3 crore

Source: MCIE, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

¹ Mahindra Systech, a division of Mahindra & Mahindra, was created in 2004 to capitalise on the opportunities presented by the growth of the Indian automobile component industry. The Systech division was formed through the amalgamation of some existing Mahindra Group companies combined with a series of acquisitions in India and Europe. The Systech auto component division (comprising multiple companies, listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as of December 31, 2022	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
			(Rs. crore)	(Rs. crore)	27-Apr-2023	3-Mar-2023 29-Apr-2022	29-Apr-2021	-
1	Fund-based/ Non-Fund Based Facilities	Long-term/ Short-term	575.0	241.1	[ICRA]AA (Stable)/ [ICRA] A1+	[ICRA]AA- (Positive)/ [ICRA] A1+	[ICRA]AA- (Positive)/ [ICRA] A1+	-
2	Commercial Paper	Short-term	200.0	0.0*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Unallocated Amount	Long-term/ Short-term	-	-	-	[ICRA]AA- (Positive)/ [ICRA] A1+	[ICRA]AA- (Positive)/ [ICRA] A1+	-

Source: Company; *not yet placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-Fund Based Facilities	Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based/Non-Fund Based Facilities	-	NA	-	575.00	[ICRA]AA (Stable)/ [ICRA] A1+
Unplaced	Commercial Paper	-	NA	-	200.00*	[ICRA]A1+

Source: Company; *not yet placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	MCIE Ownership	Consolidation Approach
Stokes Group Limited	100%	Full Consolidation
CIE Forgings Germany GmbH	100%	Full Consolidation
Jeco Jellinghaus GmbH	100%	Full Consolidation
Gesensschmiede Schneider GmbH	100%	Full Consolidation
Falkenroth Umformtechnik GmbH	100%	Full Consolidation
Schoeneweiss & Co. GmbH	100%	Full Consolidation
Metalcastello SPA	99.96%	Full Consolidation
CIE Galfor S.A.U.	100%	Full Consolidation
CIE Legazpi S.A.	100%	Full Consolidation
UAB CIE LT Forge	100%	Full Consolidation
BF Precision Private Limited	100%	Full Consolidation
Bill Forge Mexico S de RL de CV	99.99%	Full Consolidation
Aurangabad Electricals Limited	100%	Full Consolidation
CIE Hosur Limited	100%	Full Consolidation

Source: MCIE

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About ICRA Limited:

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