Majestic Auto Limited

Instrument	Amount	Rating Action
	In Crore	As on Oct'15
Term loans	15.78 (reduced from 16.18)	[ICRA]BBB(stable); reaffirmed
Cash Credit	15.00	[ICRA]BBB(stable); reaffirmed
Bank Guarantee/ Letter of Credit	14.25	[ICRA]A2;reaffirmed
Unallocated	4.97 (increased from 4.57)	[ICRA]BBB(stable); reaffirmed

ICRA has reaffirmed the rating for Rs 31.18 crore* long-term, fund based bank facilities and Rs. 4.97 crore unallocated facilities of Majestic Auto Limited (MAL) at [ICRA]BBB (pronounced ICRA triple B)†. ICRA has also reaffirmed the rating for Rs. 14.25 crore, short-term, fund-based and non-fund based bank facilities of the company at [ICRA]A2 (pronounced ICRA A two). Outlook on the long-term rating is 'Stable'.

The rating reaffirmation continues to take into consideration the management's past track record of monetization of investment for debt reduction as well as to fund losses. The ratings also factor in positively the management's efforts towards product diversification as well as new client addition to drive revenue growth as well as to improve profitability by increasing capacity utilization. Additionally, the company (along with its subsidiary) has also forayed into new service offering such as Common Area Maintenance that is expected to support revenues over the medium term.

The ratings are, however, constrained by the weak operating performance of the company over the last four years with the company operating loss for last two years with some signs of turnaround visible from Q1 2015-16. MAL held more than 1 million shares in Hero MotoCorp Limited that resulted in some financial flexibility despite weak operating performance thereby supporting the ratings in the past. Nevertheless, the recent borrowings for acquisition of Emirates Technologies Private Limited (ETPL)‡ have resulted in deterioration in credit profile with weak capital structure and the coverage indicators. Additionally, 99.1% of equity shares in HMCL being pledged for raising this acquisition debt results in limited financial flexibility. ICRA also notes that although acquired entity holds an IT Park in Noida with reputed client profile, the significant proposed debt against the lease rentals would constrain the financial profile. However, while reaffirming the rating ICRA has factored in MAL management's intention to repay the acquisition related borrowing (Rs. 60 crore) through monetization of identified assets during 2015-16 with this borrowing being considered as bridge finance. Notwithstanding this, any delay in debt reduction plans as well as inability to sustain the improvement in operating performance would remain a rating sensitivity.

Company Profile

Majestic Auto Limited was promoted in 1973 as Majestic Gears Private Limited by Brijmohan Lal Munjal, Om Prakash Munjal and Satyanand Munjal. The company began as a supplier of bicycle components to Hero Cycles Limited and subsequently began manufacturing mopeds, to cater to the growing Indian two wheeler market. MAL continued to diversify in to different business areas, like manufacturing precision sheet metal components in 2000 and supplying mufflers to HMCL in 2001. For manufacture of fine blanking components, MAL also entered in to a technical collaboration agreement with Feintool Technologies of Switzerland. In 2003-04 MAL demerged its Ghaziabad unit to Hero Auto Limited (currently Hero Motors Limited) citing reasons of locational disadvantage and lack of synergies with the Ludhiana unit. MAL continued to further diversify into new product lines and began manufacturing electrical motor parts such as die cast rotors etc for application in refrigerator compressors, washing machines, power steering, and electric fans. Nevertheless, with declining

* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

‡ Effective 24 Sep, 2015 MAL has 80% stake in Emirates Technologies Private Limited (ETPL) with remaining 20% stake with promoter group company 'OK Hosiery Mills Private Limited'.

volumes and losses from its mopeds and health equipment division; MAL discontinued the manufacturing of these products since January 2009. In 2014-15, the supplies to HMCL have also been stopped, with focus on electrical and fine blanking segment where the company continues to add new customers and business. MAL that has two manufacturing facilities situated in Ludhiana and one in Greater Noida

MAL also has a 100% subsidiary - Majestic IT Services Limited which provides telephone directory services and has over the years added new services like consulting for digital strategy, mobile applications development, and CRM development with recent foray being facility management services. Effective Sep, 2015 MAL has 80% stake in Emirates Technologies Private Limited (ETPL) with remaining 20% stake with promoter group company 'OK Hosiery Mills Private Limited'. ETPL is into infrastructure development with IT Park for IT/ITES companies under the name of 'Knowledge Boulevard" in Sector-62, Noida (opposite Shipra Mall). The plot size is 20,000 sq. m with 6.4 lakh sq. ft. rented area (basement + stilt + 9 floors).

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