Majestic Auto Limited

Instrument	Amount In Crore	Rating Action As on December 2016
Term loans	7.90 (reduced from 15.78)	[ICRA]BBB(stable); reaffirmed
Cash Credit	16.00 (increased from 15.00)	[ICRA]BBB(stable); reaffirmed
Bank Guarantee/ Letter of Credit	14.25	[ICRA]A2;reaffirmed
Unallocated	11.85 (increased from 4.97)	[ICRA]BBB(stable); reaffirmed

ICRA has reaffirmed the long term and short term ratings of [ICRA]BBB/[ICRA]A2 (pronounced ICRA triple B/ ICRA A two) for Rs. 50.0 bank facilities of Majestic Auto Limited (MAL). Outlook on the long-term rating is 'Stable'.

The rating reaffirmation continues to take into consideration the management's past track record of timely fund infusion for debt reduction and to fund losses by liquidating investments. The ratings also factor in positively the management's success in introducing new products such as power steering motors, fan motors, washing machine motors and certain fine blanking products for auto ancillaries over the last two years; the contribution of these new products remains low as of now but would significantly support in countering the seasonality, related to MAL's core refrigerator motors' business, as the supplies ramp up. ICRA favourably notes the steps towards production and man power rationalisation which would help in cutting the operational losses significantly.

The ratings are, however, constrained by the weak operating performance of the company which led to significant operating losses during FY2014-FY2015. Even though the operating losses were contained during FY2016 supported by healthy revenue growth, the credit profile as on 31st March, 2016 weakened on account of debt funded acquisition of ETPL. Although the company holds investments in HMCL shares (0.98 million as on 30th September, 2016) that provided the required financial flexibility during FY2015 and FY2016 with significant debt being repaid; since 80% of these shares are encumbered, its financial flexibility is currently limited. However, the management's intention to fund any future acquisition as well as to repay related term borrowings through monetisation of identified assets over the near term provides rating comfort. The ratings would be sensitive to MAL's ability to significantly improve the credit profile and bring about sustainable improvement in its operating margins, and any major debt funded acquisition would remain a key rating monitorable.

Company Profile

Majestic Auto Limited (MAL or 'the company') 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, such as manufacturing precision sheet metal components in FY2000 and supplying mufflers to Hero MotoCorp Limited (HMCL) in FY2001. For manufacturing fine blanking components, MAL also entered in to a technical collaboration agreement with Feintool Technologie AG Lyss of Switzerland. In FY2004, 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, for application in refrigerator compressors, washing machines, power steering, and electric fans. Nevertheless, with declining volumes and losses from its mopeds and health equipment division; MAL discontinued the manufacturing of these products from January 2009. In FY2015, the supply to HMCL was discontinued and now the company's manufacturing operations comprises electrical and fine blanking segments. MAL has two manufacturing facilities situated at Ludhiana, Punjab and one at Greater Noida in Uttar Pradesh. In Q3FY2017, the management started shifting its fine blanking segment from Ludhiana to Greater Noida to cut operational losses by rationalisation of production, optimisation of manpower as well as transportation cost. Furthermore, MAL forayed into Common Area Maintenance (CAM) services in FY2016.

MAL has a 100% subsidiary as well, Majestic IT Services Limited (Majestic IT), which has facility management services as its focus area. Effective from September, 2015 MAL acquired 80% stake in Emirates Technologies Private Limited (ETPL) while the remaining 20% stake was acquired by the promoter group company 'OK Hosiery Mills Private Limited'. ETPL is involved in 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 a 6.4 lakh sq. ft. rented area (basement + stilt + 9 floors).

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