September 08, 2017

Majestic Auto Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term loan	7.90	[ICRA]BBB; outlook revised from “Stable” to “Negative”
Fund-based	16.00	[ICRA]BBB; outlook revised from “Stable” to “Negative”
Non-fund based	14.25	[ICRA]A3+; downgraded from [ICRA]A2
Unallocated	11.85	[ICRA]BBB; outlook revised from “Stable” to “Negative”
Total	**50.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating at [ICRA]BBB (pronounced ICRA triple B) for the Rs. 35.75 crore long-term facilities (including Rs. 11.85 crore unallocated lines) of Majestic Auto Limited(“MAL” or “the company”). The outlook on the long-term rating has been revised from Stable to Negative.

ICRA has also downgraded the short term rating assigned to the Rs. 14.25 crore short-term non-fund based facilities of the company from [ICRA]A2 (pronounced ICRA A two) to [ICRA]A3+ (pronounced ICRA A three plus).

Rationale

The rating action takes into account the continued weak operating performance of MAL, which led to significant operating losses over the recent quarters as against management expectations of turnaround in the manufacturing business. The company derives more than 60% of its sales revenue from the domestic white goods industry, which was severely impacted by the Government’s demonetisation drive in November 2017, which led to MAL’s reduction in sales volume in Q3 FY2017 and Q4 FY2017, which are seasonally strong quarters for the company. During Q1 FY2018, the company’s performance was adversely impacted by low off-take from white good original equipment manufacturers (OEMs) as they focused on channel correction before GST implementation from July 01, 2017.

ICRA notes the enabling resolution passed by the company’s board, which allows the management to liquidate identified assets worth Rs. 300 crore over the next two years. The management plans to use these funds to partly repay the debt. ICRA also notes that the management has shut down its wiring winding line for its key customers from August, 2017 (annualised revenues of Rs. 15-20 crore) that continued to make losses and needed capital expenditure for new technology. Though this will have contractionary impact on the revenues but the operating margins are expected to expand. The ratings derive comfort from steady operations of MAL’s subsidiary, Emirates Technologies Private Limited (ETPL), which is engaged in facility management services and the leasing of corporate office space. 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.

The ratings continue to take into consideration the management’s past track record of timely fund infusion for debt reduction and to fund losses by liquidating investments. More recently during Q1 FY2018, the company liquidated ~Rs. 22.4 crore of shares of Hero MotoCorp Limited (HMCL) which were partly used to repay the debt. Currently, the company holds 9,21,000 HMCL shares, of which 2,54,370 shares are unencumbered. Besides these shares, the company has identified land parcels that can be liquidated as and when the need arises. ICRA favourably notes that steps towards production and man power rationalisation would help in cutting operational losses significantly.

Key rating drivers

Credit strengths

- **Track record of timely support for debt reduction as well as loss funding by liquidating investments –** The management's demonstrated track record of timely fund infusion for debt reduction and to fund losses by liquidating investments. More recently during Q1 FY2018, the company liquidated ~Rs. 22.4 crore of shares of HMCL, which were partly used to repay the debt. Currently the company holds 9,21,000 HMCL shares, of which 2,54,370 shares are unencumbered.
- **Management's efforts to cut operational losses through rationalisation of manufacturing facilities and man power –** Over the recent quarters the management has focussed on reducing losses by rationalising production through initiatives like consolidation of manufacturing lines at Greater Noida (Uttar Pradesh) in Q3 FY2017 that led to reduction in employee costs. More recently in August 2017, the company shut down its wiring winding line, which was loss making and required capital expenditure. Though these moves will have contractionary impact on the revenues, the operating margins are expected to expand.

Credit weaknesses

- **Weak operating performance of MAL (standalone)-** The ratings are constrained by continued weak operating performance of the company, which led to significant operating losses over the recent quarters. Even though the operating losses were contained during FY2016, supported by healthy revenue growth, the performance in FY2017 was again impacted by the demonetisation drive, which impacted the end-product demand and hence led to weak off-takes by customers. The weak market scenario continued in Q1 FY2018 as implementation of GST regime from July 2017 led to lower off-takes by OEMs as they focused on clearing old stock before nation-wide implementation.
- **Weak credit profile led by debt funded acquisition in FY2016**

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Auto Component Manufacturers

About the company:

MAL 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 for the growing Indian two-wheeler market. MAL continued to diversify into different business areas, such as manufacturing precision sheet metal components in FY2000 and supplying mufflers to HMCL in FY2001. For manufacturing fine blanking components, MAL also entered into a technical collaboration agreement with Feintool Technologie AG Lyss of Switzerland. In FY2004, MAL demerged its Ghaziabad (Uttar Pradesh) unit to Hero Auto Limited (currently Hero Motors Limited) citing reasons of locational disadvantage and lack of synergies with the Ludhiana (Punjab) 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 in Ludhiana (Punjab) and one in Greater Noida (Uttar Pradesh). In Q3 FY2017, the management started shifting its fine blanking segment from Ludhiana to Greater Noida to rationalise production, optimise 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 offers facility management services as its focus area. In 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 of IT Parks for IT/ITeS companies in Noida, known as 'Knowledge Boulevard'.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	123.6	176.8
PAT (Rs. crore)	9.3	-9.8
OPBDIT/ OI (%)	1.6%	0.5%
RoCE (%)	6.8%	
Total Debt/ TNW (times)	1.1	
Total Debt/ OPBDIT (times)	89.7	
Interest coverage (times)	0.1	
NWC/ OI (%)	26.7%	

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital; (P)provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					September 2017	December 2016	October 2015	August 2014
1	Term loan	Long Term	7.90	-	ICRA]BBB (Negative)	ICRA]BBB (Stable)	ICRA]BBB (Stable)	ICRA]BBB (Stable)
2	Fund-based	Long Term	16.00	-	ICRA]BBB (Negative)	ICRA]BBB (Stable)	ICRA]BBB (Stable)	ICRA]BBB (Stable)
3	Non-fund based	Short term	14.25	-	[ICRA]A3+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated	Long Term	11.85	-	ICRA]BBB (Negative)	ICRA]BBB (Stable)	ICRA]BBB (Stable)	ICRA]BBB (Stable)

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 No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	-	-	March 2018	7.90	[ICRA]BBB (Negative)
-	Fund-based	-	-	-	16.00	[ICRA]BBB (Negative)
-	Non-fund based	-	-	-	14.25	[ICRA]A3+
-	Unallocated	-	-	-	11.85	ICRA]BBB (Negative)

Source: MAL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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