Mahindra CIE Automotive Limited

August 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based/Non-Fund Based Facilities	Rs.295.00 crore	Rs.295.00 crore	[ICRA]AA-(Stable)/ [ICRA]A1+; Reaffirmed
Commercial Paper	Rs.50.00 crore	Rs.50.00 crore	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[1] and the short-term rating of [ICRA]A1+ (pronounce ICRA A one plus) on the Rs. 295.00-crore[2] fund-based and non-fund based bank facilities of Mahindra CIE Automotive Limited (MCIE). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the [ICRA]A1+ rating for the Rs 50.00-crore commercial paper programme of MCIE.

Rationale

The ratings continue to reflect MCIE's large scale of operations; its diversified presence across geographies, automotive segments and products. ICRA notes the strategic importance for CIE Automotive SA (CIE) as the auto component division for South and South East Asian market. The ratings also factor in MCIE's comfortable capital structure with moderate leverage and satisfactory debt coverage indicators, which are likely to strengthen further amid robust free cash flow generation from the business over the near to medium term. Its European business, which accounted for 59% of its revenue during CY2017, is likely to witness healthy traction in the medium term, given ramp-up in Italian and Lithuanian subsidiaries. The Indian business has also witnessed margin expansion over the last two years, supported by better operating leverage and improved operating efficiencies. The acquisition of Bill Forge Private Limited (BFL, rated [ICRA]AA- (Positive) and [ICRA]A1+) in CY2016 helped the Indian business in margin expansion as well as reducing its dependency on Mahindra & Mahindra Limited (rated [ICRA]AAA (Stable) and [ICRA]A1+). With expected improvement in cash accruals and modest debt repayment obligations, the cash flow position of the company is expected to remain robust. Nevertheless, any large debt-funded acquisition or Greenfield expansion will remain a key rating sensitivity, going forward. The rating strengths are partially offset by MCIE's subdued return indicators (RoCE) due to sub-par performance of the German forging business and moderate client concentration risk with its top two clients generating 27% of the consolidated revenue during CY2017.

ICRA expects the company to maintain its credit profile through its organic or inorganic investment plans; although ICRA would evaluate the impact of any such investments on the credit profile on a case-by-case basis. The liquidity profile is expected to remain stable, supported by adequate undrawn bank facilities as well as cash and liquid investments of Rs. 126 crore on a consolidated basis, as on December 2017. ICRA expects MCIE will continue to generate free cash flow from the business, which is expected to further strengthen its credit profile over the medium term.

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

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

ICRA expects MCIE's credit profile to improve over the medium to long-term, supported by improvement in its European business and the firm's focus on improving its product mix along with better asset utilisation. The outlook may be revised to Positive if there is sustainable improvement in its scale of operations and capital structure, along with a more diversified customer portfolio. The outlook may be revised to Negative in case of significant downturn in the global automotive industry or weakening in market position, thereby materially impacting profitability and return indicators or any leveraged acquisition, which may have a bearing on the leverage indicators of the firm. ICRA expects the company to maintain its credit profile through its organic or inorganic investment plans, the impact of any such investments, on the credit profile would be evaluated by ICRA on a case-by-case basis.

Key rating drivers

Credit strengths

Strong parentage and strategic importance for CIE Automotive – CIE enjoys a global automotive footprint across multiple technologies. Moreover, MCIE enjoys strategic importance for CIE's global operations as the auto component division for South and South East Asian markets.

Synergies derived from CIE's global operations – CIE enjoys established relationships with global OEMs such as Volkswagen AG, Renault SA, and Ford Motor Company, Fiat Chrysler Automotive, General Motors Company, Nissan Motor Company Limited among many others. MCIE has a medium-term plan to introduce CIE's products (such as aluminium casting and plastics) to the Indian market, which will further help in diversifying its clientele and product portfolio.

Well diversified operations in terms of technology divisions, geographical reach and industry segments – MCIE is present across six business segments—forging, stamping, casting, gears, composite and magnetic products. Its six business divisions are spread across Passenger Vehicles, Commercial Vehicles, tractor, 2-Wheelers and off-road segments. MCIE also has a geographically diversified revenue base, which mainly includes India (41%) and Europe (59%).

Favourable capital structure and satisfactory coverage metrics – Thanks to strong cash accruals and accretion to reserves as well as repayment of debt, MCIE's leverage reduced to 0.3x in December 2017 (vs 0.4x in December 2016). On a consolidated basis, Total Debt/OPBDITA stood at 1.5x as on December 2017.

Credit challenges

Subdued profitability due to sub-optimal capacity utilisation in German forging business – Though the operational performance of its European business has witnessed a steady improvement over the years, MCIE's German operations reflect below par performance, dragging the overall return indicators (RoCE of ~12% on a consolidated basis). Nevertheless, there has been steady improvement in profitability, supported by ramp-up in Indian operations as well as European subsidiaries (especially in Lithuania and Italy).

High client concentration risk at consolidated level with top two customers accounting for 27% of revenues; acquisition of Bill Forge helped diversify client base in Indian operations – Despite its large clientele, MCIE's dependency on its top two customers remain moderately high at 27% (M&M at 16% and Daimler AG at 11%). Nevertheless, their healthy share of business and strong market position mitigates the client concentration risks to an extent.

Exposure to cyclicality in automotive industry across domestic as well as overseas markets – The auto-supplier industry remains vulnerable to the cyclicality inherent in the automotive industry and the pricing pressures that auto-suppliers face from large OEMs.

Analytical approach: To arrive at the ratings, ICRA has taken a consolidated view of BFL, as an Indian entity has also given corporate guarantees and financial support to its subsidiaries in the past. 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:

Mahindra CIE Automotive Limited is part of the global auto component player, CIE Automotive Group, based out of Spain. MCIE was earlier known as Mahindra Forgings Limited (part of Mahindra Systech Division) and was later renamed following the integration of the Mahindra Group's Systech business with CIE, which was announced in 2013.

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. Apart from its strong presence in forgings, MCIE is also among the largest ductile iron casting and compression moulded auto-components manufacturers in India. Its standalone operations consist of six product segments—forgings, castings, stampings, composites, magnetic products and gears. Post acquisition of Bill Forge Private Limited (BFL) in CY2016, MCIE also gained strong traction in precision forged and machined automotive components for domestic two-wheeler and passenger vehicle segments. Its European operations, especially for MFE and CIE Galfor, consists of forged components, while Metalcastello is primarily engaged in the gears segment.

During Q2CY2018, at a consolidated level, MCIE reported an operating profit of Rs. 291 crore on sales of Rs. 1,973 crore. During CY2017, at a consolidated level, MCIE reported an operating profit of Rs. 815 crore on operating Income of Rs. 6,520 crore.

Key financial indicators

Consolidated	CY2016	CY2017
Operating Income (Rs. crore)	5,320	6,520
PAT (Rs. crore)	169	358
OPBDIT/OI (%)	10.0%	12.5%
RoCE (%)	8%	12%
Total Debt/TNW (times)	0.4	0.3
Total Debt/OPBDIT (times)	2.6	1.5
Interest Coverage (times)	8.9	14.9

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);

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2019 Aug 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund-based/Non-Fund Based Facilities	Long-term	Rs.295.00 crore	Rs.295.00 crore	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-
2	Commercial Paper	Short-term	Rs.50.00 crore	Rs.50.00 crore	[ICRA]A1+	[ICRA]A1+	-	-

Source: The company; *: Amount outstanding as on March 31, 2018

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund-based/Non-Fund Based Facilities	-	NA	-	295.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Commercial Paper	-	NA	-	50.00	[ICRA]A1+

Source: The company

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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.

For more information, visit www.icra.in

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