

M.G.M Springs Private Limited

April 12, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based/CC	5.20	5.20	[ICRA]BB- (Stable); Reaffirmed
Long Term – Unallocated	1.55	1.55	[ICRA]BB- (Stable); Reaffirmed
Short Term - Non-fund based	3.25	3.25	[ICRA]A4; Reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to derive comfort from established position of the group in the domestic spring industry, the company's fairly diverse product profile within springs and its reputed clientele comprising of auto OEMs and tier I/tier II suppliers including Royal Enfield Limited, Stumpp Schuele & Somappa Springs Private Limited (4SPL), Lucas Indian Service Limited, Duro Shox Private Limited and Exedy India Limited. Although M.G.M Springs Private Limited (MGMSPL) is a relatively modest-sized player with revenues of Rs. 23.1 crore for 10M FY2019, the group – 4SPL and 5SPL along with MGMSPL together accounts for 35-40% of the domestic springs market. ICRA also positively factors in the financial support extended by the promoters in the form of unsecured loans (Rs. 9.5 crore as on March 31, 2018) and steady inflow of orders from Stumpp Schuele & Somappa Springs Private Limited (4SPL), with the company remaining strategically important to the group.

The ratings are, however, constrained by company's stretched financial profile. The company reported net loss of Rs. 0.2 crore/ (0.9%) during 10M FY2019 (as against net profit of 0.4 crore for FY2018) due to higher raw material and employee expenses, and inability to pass on the same to customers. MGMSPL's operations remain working capital intensive and the company continues to have stretched debt metrics – with NWC/OI at 50.1% as on March 31, 2018. The ratings also constrained by MGMSPL's modest scale of operations (Rs. 23.1 crore for 10M FY2019) and its high customer concentration with 55% of revenues from the top customer (Stumpp Schuele & Somappa Springs Private Limited) and 96.2% of revenues from the top 10 customers in 10M FY2019.

Outlook: Stable

The stable outlook reflects that MGMSPL will continue to benefit from established position of the Stumpp Schuele Group in the domestic spring industry and its established relationship with its customer base. The outlook may be revised to 'Positive' if there is a significant improvement in the company's financial risk profile, supported by substantial improvement in scale, profit margins and debt metrics. The outlook may be revised to 'Negative' if the company's profits/ accruals are weaker-than-expected, or if there is significant capex/ stretch in working capital cycle, leading to deterioration in liquidity position.

Key rating drivers

Credit strengths

Established presence of the group in the domestic spring industry –The Stumpp Schuele group (4SPL, 5SPL and MGMSPL) is one of the leading players in the Indian spring industry. The group is estimated to have a market share of around 35-40% in the domestic springs industry, although MGMSPL on a standalone basis is a relatively small player.

Financial support from its promoters - MGM has unsecured loans from promoters (Rs. 9.5 crore as on March 31, 2018) to support operations. Also, with the company remaining strategically important to the group, MGMSPL has steady inflow of orders from Stumpp Schuele & Somappa Springs Private Limited (4SPL).

Fairly well diversified product mix within the spring industry; established customer relationships with OEMs and reputed tier 1 players – The company manufactures and sells various metallic springs including compression springs, valve springs, tension springs, wire forms and flat springs, which find application in various industries including two wheelers (2W), passenger vehicles (PV), commercial vehicles (CV) segment and defence. MGMSPL also has an established customer base comprising of OEMs such as Royal Enfield Limited and tier I/tier II players such as Amalgamation Repco Limited, Diesel Locomotive Works Limited, Lucas Indian Service Limited, Exedy India Limited, Stumpp Schuele & Somappa Springs Private Limited etc.

Credit challenges

Stretched financial profile - The company reported net losses of Rs. 0.2 crore for 10M FY2019 (as against 1.5% profit in FY2018) due to higher raw material and employee expenses, and inability to pass on the same to customers. Also, the company has low networth base and relatively high debt (Rs. 13.6 crore as on Jan 31, 2019) for the scale of operations. As a result, MGMSPL continues to have stretched capital structure and moderate coverage metrics. The company's gearing stood at 4.1 times as on Jan 31, 2019 and its Total Debt/OPBDITA stood at 5.7x as on Jan 31, 2019. The company's operations remain working capital intensive.

Modest scale of operations - The company's revenues are sub Rs. 40.0 crore and the company's scale is expected to remain similar going forward as well. The modest scale restricts economics and operational flexibility to an extent. However, MGMSPL is part of the larger Stumpp Schuele & Somappa Group (Group).

High customer concentration - The company's customer profile is highly concentrated with top 10 customers accounting for over 90% revenues in FY2018; of this, over 50% revenues continue to be from the top customer (Stumpp Schuele & Somappa Springs Private Limited/4SPL). While this continues to expose the company to revenue risks arising from loss of customers, periodic expansion of customer base and the established customer profile mitigate the risk to an extent.

Liquidity Position:

The company's average working capital utilization was high, at 97.6% of sanctioned limits for the period January 2018 to January 2019 and the company had cash and bank balance of Rs. 0.8 crore as on Jan 31, 2019. The company has Rs. 1.0 crore total repayment obligation over FY2020 to FY2022 and plans to undertake only maintenance capex over the medium term. MGMSPL's accruals are expected to be sufficient for its capex and repayment commitments over the medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	The company is part of the Stumpp Schuele Group which includes the larger Stumpp Schuele & Somappa Springs Private limited, rated [ICRA]BBB (Stable)/[ICRA]A2) and Stumpp Schuele and Somappa Auto Suspension Systems Private Limited, rated [ICRA]BBB (Stable)/ [ICRA]A2) apart from MGMSPL.
Consolidation / Standalone	Standalone

About the company:

M. G. M. Springs Private Limited (MGMSPL/the company) manufactures and sells metallic springs such as helical springs, valve springs, leaf springs, tension springs, wire forms, flat springs, spring rings and spring washers for the domestic market. About 95% of the company's revenues are derived from automobiles; of this, 50% is from 2W segment and 45% is from passenger cars (PV segment). The company's manufacturing facility is located in Ananthapur, Andhra Pradesh. MGM also derives a meager quantum of revenues from sale of wind power to the Andhra Pradesh Electricity Board.

The company is part of the Stumpp Schuele & Somappa (group) managed by Mr. M.R. Ramesh and his family members. Apart from this company, the promoters have interest in other auto component manufacturing entities – 4SPL (Stumpp Schuele & Somappa Springs Private limited, rated [ICRA]BBB (Stable)/[ICRA]A2), 5SPL (Stumpp Schuele and Somappa Auto Suspension Systems Private Limited, rated [ICRA]BBB (Stable)/ [ICRA]A2), and firms engaged in real estate 3SPL (Stumpp Schuele & Somappa Private Limited, rated [ICRA]BBB (Stable)), auto dealerships and transportation to name a few.

Key financial indicators (audited)

Standalone	FY2017	FY2018
Operating Income (Rs. crore)	22.8	24.6
PAT (Rs. crore)	0.5	0.4
OPBDIT/OI (%)	10.1%	11.4%
RoCE (%)	11.7%	12.2%
Total Debt/TNW (times)	3.3	4.8
Total Debt/OPBDIT (times)	5.0	6.0
Interest coverage (times)	2.7	1.8

Source: Company

Status of non-cooperation with previous CRA:

Brickworks, vide its rationale published on May 08, 2017, has stated that M. G. M. Springs Private Limited's rating was due for annual review. However, the rating was not reviewed as the company did not provide the required information for carrying out the review exercise.

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2018 October 2017	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund based	5.20	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
2	Unallocated	1.55	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
3	Non-fund based	3.25	-	[ICRA]A4	[ICRA]A4	-	-

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 [click here](#)

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund based/CC	Dec 2017	11.00%	-	5.20	[ICRA]BB-(Stable)
NA	Long Term - Unallocated	NA	NA	NA	1.55	[ICRA]BB-(Stable)
NA	Short Term - Non-fund based	NA	NA	NA	3.25	[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Stumpp Schuele % Somappa Private Limited	NA	NA
Stumpp Schuele & Somappa Springs Private Limited	NA	NA
Stumpp Schuele and Somappa Auto Suspension Systems Private Limited	NA	NA

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