

January 21, 2020

Mahindra CIE Automotive Limited: Ratings reaffirmed, rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based/Non-Fund Based Facilities	Rs.295.00 crore	Rs.590.00 crore	[ICRA]AA-(Stable)/ [ICRA] A1+ reaffirmed
Commercial Paper	Rs.200.00 crore	Rs.200.00 crore	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to reflect Mahindra CIE Automotive Limited's (MCIE) large scale of operations; comfortable leverage and coverage indicators with gearing at 0.3 times and TD/OPBITDA at 1.4 times as on June 2019; and well diversified presence across geographies, automotive segments, products, end user industries including passenger vehicles (PV), commercial vehicles (CV), two-Wheelers (2W) and Off-Highway segments. MCIE is expected to continue to benefit from CIE Automotive SA's (CIE) strong technological expertise along with its established relationships with global OEMs. The rating strengths are partially offset by MCIE's subdued return indicators (RoCE) as compared to other peers in similar rating category primarily due to sub-par performance of the German forging business, and the inherent cyclicity in the global automotive industry.

Merger of Bill Forge Private Limited (BFPL) with standalone operations will result in improved synergies and, hence, profitability of the standalone operations though its overall impact on consolidated profile will be credit neutral. Recently acquired Aurangabad Electricals Limited (AEL) will help MCIE in entering Aluminum Die casting business which will further aid in diversification of business segments, product segment (aluminium casting) as well as that of client base. AEL's acquisition is expected to help Indian operation to report modest growth in CY2019, which otherwise could have witnessed over 15% decline in turnover. European business, which accounted for 58% of revenue during CY2018, is likely to witness muted growth amid slowdown in key geographies and weakness in the European CV market.

With expected cash accruals of Rs 700-900 crore annually, and capex of Rs 400-500 crore, the company's credit profile is expected to further strengthen over the medium term. ICRA expects the company to maintain its credit profile through its organic and/or inorganic investment plans; although ICRA would evaluate the impact of any such investments on the credit profile on a case-by-case basis. Any large debt-funded acquisition or greenfield expansion will remain a key rating sensitivity for the firm. ICRA expects MCIE's credit profile to benefit from various cost rationalization and productivity improvement measures in India as well as overseas business; and the firm's focus on improving its product, segmental as well as customer mix along with better asset utilisation. With expected improvement in cash accruals and modest debt repayment obligations, the cash flow position of the company is expected to remain comfortable.

Key rating drivers

Credit strengths

Operational & managerial support from CIE Automotive SA; Synergies derived from CIE's global operations– CIE enjoys a global automotive footprint across multiple product segment (forgings/castings/stamping). Moreover, MCIE enjoys strategic importance for CIE's global operations as the auto component division for South Asian and South East Asian markets. MCIE is expected to benefit from CIE's strong technological expertise along with established relationships with global OEMs. MCIE has a medium-term plan to introduce CIE's products (such as plastics) to the Indian market, which will further help in diversifying its product portfolio and client base.

Large scale of operations; amongst top auto component suppliers in India – In terms of revenue, MCIE is amongst the largest auto components suppliers in India. In Europe, company is one of the leading forgings suppliers for PV, CV and off-highway segment.

Well diversified operations in terms of technology divisions, geographical reach, industry segments as well as client base – 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, tractors, two-wheelers and off-road segments. MCIE is well diversified in terms of geographical revenue base, which mainly includes India (42%) and Europe (58%) and also in terms clients.

Comfortable capital structure and coverage metrics – Despite multiple acquisitions in recent time, MCIE’s leverage and coverage indicators remain comfortable with gearing of 0.3x and TD/OPBIDTA of 1.4 times. With expected cash accruals of Rs 700-900 crore and capex of Rs 400-500 crore annually, the company’s credit profile is expected to strengthen over the medium term.

Credit challenges

Subdued profitability due to sub-optimal capacity utilisation in German forging business – Though the operational performance of its European PV forging 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).

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

Liquidity position: Strong

Company’s liquidity profile is strong, supported by adequate undrawn bank facilities as well as cash and liquid investments of over Rs. 250 crore on a consolidated basis, as on June 2019. As per the management, at a consolidated level, MCIE has more than Rs. 600 crore unutilised bank lines, which adds to the liquidity and financial flexibility available with the company. MCIE is expected to continue to generate healthy cash flows from the business, which will further strengthen its liquidity profile over the medium term, in absence of any major capex/investment plan.

Rating sensitivities

Positive triggers – Positive trigger for MCIE’s rating will be in case of substantial improvement in asset utilization and return indicators, with core RoCE more than 15% along with sustainable improvement in its scale of operations and capital structure (Net debt /OPBIDTA below 1.5 times on sustained basis), along with a more diversified customer portfolio.

Negative triggers – Negative pressure on MCIE’s rating could arise in case of deterioration operating profitability or large debt funded investments such that net debt/OPBIDTA exceeds 2.25x on sustain basis. Also, consistently negative asset liability mismatch could put downward pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	-
Consolidation/Standalone	Consolidated - For arriving at the ratings, ICRA has considered the consolidated financials of MCIE. As on December 2019, the company had five subsidiaries and 12 step-down subsidiaries who are all listed in Annexure-2

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's operations, 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. Following the acquisition of 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. On March 12, 2019, Board of Directors of the firm approved the acquisition of 100% of the issued and outstanding share capital of Aurangabad Electricals Limited (AEL) and authorized the signing of a share purchase agreement.

Key financial indicators (audited)

Consolidated	CY2017	CY2018
Operating Income (Rs. crore)	6,520	8,032
PAT (Rs. crore)	358	549
OPBDIT/OI (%)	12.5%	13.1%
RoCE (%)	12.0%	15.1%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDIT (times)	1.5	1.5
Interest Coverage (times)	14.9	20.9

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 (FY2020)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				21-January 2020	03-January 2019	09-August 2018	23-May 2017	
1 Fund-based/Non-Fund Based Facilities	Long-term	590.00	68.68	[ICRA]AA-(Stable)/[ICRA] A1+	[ICRA]AA-(Stable)/[ICRA] A1+	[ICRA]AA-(Stable)/[ICRA] A1+	[ICRA]AA-(Stable)/[ICRA] A1+	-
2 Commercial Paper	Short-term	Rs.200.00 crore	Rs.0.00 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Source: The company; Note: Fund based Amount outstanding as on December 2019.*

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	-	590.00	[ICRA]AA-(Stable)/ [ICRA] A1+
NA	Commercial Paper	-	NA	-	200.00	[ICRA]A1+

Source: The company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership**	Consolidation Approach
Stokes Group Limited (SGL)	100%	Full Consolidation
Stokes Forgings Dudley Limited	100%	Full Consolidation
Stokes Forgings Limited	100%	Full Consolidation
CIE Galfor, S.A.U. (Galfor)	100%	Full Consolidation
Mahindra Forgings Europe AG (MFE)	100%	Full Consolidation
Jeco Jellinghaus GmbH	100%	Full Consolidation
Gesens Schmiede Schneider GmbH	100%	Full Consolidation
Falkenroth Unformtechnik GmbH	100%	Full Consolidation
Schoneweiss & Co GmbH	100%	Full Consolidation
Metalcastello S.p.A (MC)	99.96%	Full Consolidation
CIE Legazpi SA	100%	Full Consolidation
UAB CIE LT Forge	100%	Full Consolidation
Galfor Eólica, S.L	25%	Full Consolidation
AE Deutschland GmbH (w.e.f. April 9, 2019)	100%	Full Consolidation
BF Precision Private Limited	100%	Full Consolidation
Bill Forge Mexico, S.A de C.V	100%	Full Consolidation
Gescrap India Private Limited (associate w.e.f. March 27, 2018)	30%	Full Consolidation
Aurangabad Electricals Limited (AEL) (w.e.f. April 9, 2019)	100%	Full Consolidation

**ownership of MCIE as on September 30, 2019

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