September 27, 2019

Munjal Auto Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund based/ CC	15.00	15.00	[ICRA]AA- (Stable) reaffirmed
LT Fund based TL	79.59	79.59	[ICRA]AA- (Stable) reaffirmed
ST Fund based	15.00	15.00	[ICRA]A1+ reaffirmed
ST Non-fund based	16.64	16.64	[ICRA]A1+ reaffirmed
LT/ ST Unallocated	3.77	3.77	[ICRA]AA- (Stable)/ [ICRA]A1+ reaffirmed
Total bank limits	**130.00**	**130.00**	
Commercial paper	**15.00**	**15.00**	[ICRA]A1+ reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation assigned to Munjal Auto Industries Limited (MAIL) takes into consideration its stable business profile as characterised by its sole supplier status with Hero Moto Corp Limited (HMCL; rated [ICRA]AAA(Stable)/[ICRA]A1+) for key exhaust system components such as mufflers. ICRA also notes its healthy financial risk profile characterised by low leverage and comfortable coverage indicators. The company reported strong coverage indicators as evident from its Total Debt/ OPBITDA at 0.7 time and interest coverage at 16.5 times in FY2019. Moreover, it is likely to maintain its comfortable credit profile despite the ongoing slowdown in the automobile industry. Although the company's dependence on debt to fund its ongoing capex and investment plans is likely to increase in the near term, ICRA expects the capital structure as well as coverage indicators to remain comfortable enough to support its rating. While reaffirming the rating, ICRA has noted MAIL's recently secured business from OEMs in the passenger vehicle (PV) industry, which would help moderate its currently high customer as well as segment concentration risk over the medium term.

The rating, however, continues to be constrained by MAIL's exposure to a single client and significant industry concentration risk on account of high revenue dependence on HMCL as well as the Indian two-wheeler (2W) industry. Although the company has been working on diversifying its business profile and has also secured business from OEMs in the PV segment, but the same is unlikely to result in meaningful diversification over the medium term. Thus, going forward, the rating will remain dependent on MAIL's ability to scale up its supplies to OEMs other than HMCL and reduce its dependence on a single customer. The slowdown in the automobile industry is likely to moderate the revenue growth of MAIL, but the company is expected to generate sufficient cash flow to service its repayment obligations.

As part of its ongoing diversification strategy, in FY2019, MAIL acquired Indutch Composites Technology Private Limited (Indutch), a windmill blade manufacturer for various renewable energy companies, for ~Rs. 30.0 crore (for 68% stake). This was an attempt to diversify into the non-automotive sector, wherein additional investments by the subsidiary are proposed for new customer addition in wind energy, aerospace and mass transit, among others. Despite the diversification benefits targeted over the long-term, the management's ability to scale up the business of Indutch will remain a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's view that despite the moderation being witnessed in the automotive industry, MAIL's financial performance will not be impacted materially as the recently secured business for supplying body-in-white (BIW) parts to PV OEMs is likely to reduce the impact of the sales contraction in 2Ws to an extent. Further, ramp up in revenues of recently acquired Indutch is also expected to mitigate the impact of slowdown in the 2W segment. Notwithstanding higher than expected debt-funded capex, the company is expected to maintain a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Strong business position – MAIL is the sole supplier of key exhaust system components such as mufflers to HMCL, which is the leader in the Indian 2W industry. Benefitting from being a part of the Hero Group as well as through regular investments in product development and having a competitive cost structure, the company has maintained its relationship with HMCL over the years and is likely to benefit from being the sole-supplier of mufflers, going forward.

Healthy financial risk profile – Aided by limited dependence on debt for its capex, MAIL continues to maintain healthy capitalisation and coverage indicators as characterised by Total Debt/OPBITDA of 0.7 time and interest coverage at 16.5 times in FY2019. The company's liquidity profile is also characterised by limited utilisation of available credit facilities and free cash reserves of Rs. 28.1 crore as of March 31, 2019, on a consolidated level. However, MAIL is likely to take on some debt-funded capex, which is likely to slightly moderate the coverage indicators. Nevertheless, ICRA expects the credit metrics to remain at comfortable levels.

Healthy revenue visibility – MAIL derived more than 90% of its revenue from the 2W industry on a consolidated level in FY2019. Even though the 2W industry is likely to degrow by 5-8% in FY2020 (as per ICRA estimates), which would constraint MAIL's revenues from this segment in the near term, ICRA expects the industry to report a volume CAGR of 6-8% over the medium term. Along with expectations of ramp-up in revenues from Indutch, this supports the company's revenue visibility over the medium term.

Credit challenges

High customer concentration risk – HMCL accounted for ~90% of the total revenues of the company. At present, the revenue contribution from new products segments and other OEMs remains negligible. However, its sole supplier status and HMCL's market leadership position mitigates the client concentration risk to some extent. In addition, MAIL's recent business wins from other OEMs and its acquisition of Indutch are likely to further mitigate its client concentration risk, going forward.

Financial risk profile characterised by low operating margin but healthy return indicators – With MAIL deriving ~95% of its revenues from the sale of mufflers, the operating margins remain low owing to the assembly type nature of its operations. However, with optimal asset utilisation, the core RoCE remained healthy at ~19.5% in FY2019. Going forward, new business gains from select PV OEMs and the acquisition of Indutch are likely to help in expanding MAIL's margins (on a consolidated basis) in the long-term, depending upon the profitable scaling up of Indutch.

Planned debt-funded capex and recent acquisition – MAIL acquired Indutch for ~Rs. 30.0 crore in Q1 FY2019 and has some debt-funded capex plans in the near term. In the past, the company had maintained a strong financial risk profile with a negative net debt position and healthy credit metrics. However, with the acquisition, coupled with the capex during FY2019–FY2020, the coverage indicators are likely to moderate in the near term even as MAIL's financial profile may remain comfortable. Even as these investments are likely to provide diversification benefits to the company in the long-term, timely completion and scale-up of revenues from these projects remain a key rating sensitivity.

Liquidity position: Strong

MAIL's liquidity position is **strong**, characterised by an expectation of stable retained cash accruals of ~Rs. 40-70 crore/annum, free cash reserves of Rs. 28.1 crore as on March 31, 2019, low utilisation of working capital limits (average utilisation of ~12%) and limited planned capex of ~Rs. 20-55 crore/annum (capex plans remain flexible and may be revised lower in line with demand in economy). MAIL is expected to have annual debt repayments of ~Rs. 10-16 crore/annum, with its cash accruals likely to be more than sufficient to help repay the same in a timely manner.

Rating sensitivities

Positive triggers: A sustained improvement in the operational profile of the company through material diversification of its customers and products could trigger a rating upgrade.

Negative triggers: A rating downgrade could be triggered if there is a significant deterioration in the operational profile of the company because of reduced share of business. Further, a higher than expected debt-funded capex and/or inorganic investments could adversely impact the financial profile of MAIL and a rating downgrade could be triggered if Debt/OPBDITA on a net level exceeds 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

MAIL is a leading auto component manufacturing company in India producing exhaust systems, spoke rims, steel wheel rims, PV fuel tank, BIW parts and other automotive assemblies. It has a technical collaboration arrangement with Lafranconi Italy for 2W exhaust systems and with Samsung Industries Ltd. of Korea for PV fuel tanks.

The manufacturing units of the company are located at Baroda (Gujarat), Bawal (Haryana), Dharuhera (Haryana) and Haridwar (Uttarakhand). Over the last few years, the company has added significant capacities to meet HMCL's increasing demand, with its Dharuhera unit being the latest one to be added. Additionally, it has also invested in additional lines at its other facilities to increase its capacity. Currently, it is the sole supplier of mufflers for HMCL's 2Ws.

MAIL is a Hero Group company, with the Satyanand Munjal family holding ~74.8% of MAIL's equity and public shareholders the rest. The chairman of the company is Mr. Sudhir Munjal.

Key financial indicators (audited)

	FY2018*	FY2019**
Operating Income (Rs. crore)	1,033.1	1,214.0
PAT (Rs. crore)	41.6	37.3
OPBDIT/OI (%)	7.0	5.8
RoCE (%)	19.6	16.9
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8
Total Debt/OPBDIT (times)	0.4	0.7
Interest Coverage (times)	16.8	16.5
DSCR	3.5	3.7

**Standalone, **From FY2019 the company started publishing consolidated results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019	FY2018	FY2017
					27-Sep-2019	3-Aug-2018	10-Jul-2017	12-Jul-2016
1	Fund based/ CC	Long Term	15.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund based TL	Long Term	79.59	23.21	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Fund based	Short Term	15.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-fund based	Short Term	16.64	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long Term/ Short Term	3.77	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
6	Commercial paper	Short Term	15.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. crore; *outstanding as on March 31, 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]AA- (Stable)
NA	Term loan – 1	Apr-2014	8.15%	Dec-2021	66.99	[ICRA]AA- (Stable)
NA	Term loan – 2	Jan-2019	8.15%	Sep-2025		
NA	Term loan – 3	Nov-2013	8.50%	Dec-2020	12.60	[ICRA]AA- (Stable)
NA	Fund based	NA	NA	NA	15.00	[ICRA]A1+
NA	Non-fund based	NA	NA	NA	16.64	[ICRA]A1+
NA	Unallocated	NA	NA	NA	3.77	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Commercial Paper	Yet to be placed			15.00	[ICRA]A1+

Source: MAIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indutch Composites Technology Private Limited	68.00%	Full Consolidation

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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.

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