Caparo Maruti Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	68.09	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Short Term Bank Facilities	63.75	CARE A4+ (A Four Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	**131.84 (Rs. One Hundred Thirty-One Crore and Eighty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Caparo Maruti Limited takes into account the continued weak operational performance of the company marked by net losses during FY2021 (refers to period April 01 to March 31) which has continued in 9MFY22 (refers to period April 01 to Dec 31), and moderation in debt coverage indicators. Additionally, the ratings continue to remain constrained by exposure to fluctuation in raw material prices with limited bargaining power, cyclical nature of auto component industry along with moderation in the financial risk profile marked by deterioration in overall gearing. The ratings of the company continue to derive strength from strong business association of CML with Maruti Suzuki India Ltd (MSIL) which has continued its dominance in passenger car segment in India, its promoter's vast experience in auto component business, established track record of operations.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PBILDT margin beyond 7% along with an increase in total operating income on a sustained basis.
- Improvement in operational cash flows leading to improved liquidity and current ratio above 1.3x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in the total operating income below Rs.500 cr. with continued losses at operational and net level
- Any further increase in debt from current level.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak Operational and financial risk profile

The TOI of the company declined by 8% and stood at Rs. 484.55 cr. (PY: Rs. 525.37 crore) owing to nationwide lockdown imposed by the government and semi-conductor chip shortages which impacted operations of company along with slowdown in the auto sector in India. The PBILDT margin of the company has declined from 1.28 during FY20 to losses of Rs 38 lakh during FY21. The same has been primarily on account of decline in the scale of operations with proportionate increase in fixed expenses and receipt of lower payment under PCD (Price Cost Deduction y-o-y for the components used in existing models of MSIL) model. Furthermore, the company has reported increase in net loss to Rs.31.95 crore in FY21 as against net loss of Rs.18.76 crore in FY20. The company also reported cash loss amounting to Rs.21.56 crore in FY21. During 9MFY22, company has reported turnover of Rs 458.870 signifying recovery in the operations of the company, though, company has still reported net loss of Rs 9.53 crore. The new business (from new model launches by the Original Equipment Manufacturer (OEM) is expected to kick start from FY24 and thereby moderate visibility of profitability in the ensuing year.

Volatility in raw material prices and foreign exchange fluctuation risk

The company's profitability remains exposed to the volatility in raw material prices fluctuations. The major raw material for company is steel products like steel bars, steel sheets and steel tubes which forms approximately 83% of total cost of sales. The iron and steel prices are volatile in nature, thus exposing the company to price risk. In the domestic market, the price reset is undertaken with the OEMs when there is an increase in the input prices. CML lodges the claim with OEMs and after negotiations, the increase in input prices is compensated by OEMs; however, there is a time lag of a quarter. But, the compensation is awarded with retrospective effect.

Cyclicality associated with the auto industry

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key Rating Strengths

Vast experience of the promoters in auto component business

CML was the first company of the Caparo Group in India and commenced its operations as an automotive components supplier for MSIL. Over the span of more than two decades, the group thorough various companies have expanded to pan India presence working mainly for OEMs of passenger cars, commercial vehicles and off-road vehicles and supplies sheet metal stampings, steel forging, aluminium die casting, tubing, fasteners and tailor welded blanks. MSIL (which holds 25% in the joint venture) is the one of the largest passenger car manufacturers and has a track record of around two decades.

Strong business association with MSIL

CML was incorporated as an exclusive supplier of sheet metal stampings and weldments of specific design to MSIL. CML gets operational support from MSIL for developing the production mechanisms, sharing of risk in terms of raw material fluctuation etc. CML has plants devoted to the production for MSIL which is also reflected by the fact that around 67% (PY: 75.95%) of the total operating income of the company were made to MSIL. Thus, major dependence on MSIL exposes the company towards customer concentration risk. Any change in procurement policy of this customer may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans. Although there is customer concentration risk, it is however, offset to some extent as MSIL has considerable stake in CML and further has strong presence in the Indian Automobile market.

Liquidity: Stretched

Owing to the past trend of subdued operational performance with no visible improvement in the current year, the liquidity profile continues to remain stretched with lower generation of cash accruals envisaged vis-à-vis debt repayments for the fiscal FY23. Though, company has managed its repayment obligations by way of emergency credit line guarantee scheme loans and unsecured loans from related parties. Further, the company is incurring capex every year by way of term loans and internal accruals, with fixed repayment obligations in future years resulting in weak debt coverage indicators. Company has sanctioned fund-based limit of Rs 80 crore, out of which, approx. 69% of the limit remained utilised in last 12 months ending February 22. CML has deposited DSRA in the form of fixed deposits amounting to Rs.6 crore on account of non-achievability of projected revenue and profitability. Current ratio of the company has remained low and stood at 0.71x as on March 31, 2021 (PY: 0.60x). To improve the liquidity position, MSIL has agreed for compensation of Rs 5 crore to the company every year, starting from March 2022 for the losses, it suffered due to PCD and no new business. Also, the new business of Rs 70 crore approx. from MSIL, addition in new customer base along with increase in the demand of existing customer, company is expecting revenue visibility of approx. Rs 100 crore in FY24, execution of which will remain a key monitorable.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology- Liquidity Analysis of Non-Financial Sector Entities
CARE's methodology for auto ancillary companies

About the Company

CML incorporated in 1994 is engaged in the manufacturing of auto components. CML is a joint venture between Caparo India Ltd and MSIL, which hold 75% and 25% shares respectively. It was incorporated as an exclusive supplier of sheet metal stampings and weldments of specific design to MSIL. CML caters to various small and mid-sized models of MSIL. CML has three manufacturing plants located across India including Gurgaon (Haryana), Bawal (Haryana). The facilities are equipped with imported and indigenous press lines, robotic welding lines and painting facilities.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	525.37	484.55	458.70
PBILDT	6.73	-0.38	13.84
PAT	-18.76	-31.95	-9.53
Overall gearing (times)	0.79	1.36	-
Interest coverage (times)	0.46	-0.03	-

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term		-	-	March 2026	63.09	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	8.75	CARE A4+
Fund-based - ST-Purchase Invoice Financing		-	-	-	55.00	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	-	-	-				
2	Not Define-Short Term	-	-	-				
3	Term Loan-Long Term	LT	63.09	CARE BB+; Stable	-	1)CARE BBB-; Negative (05-Mar-21) 2)CARE BBB-; Negative (19-Aug-20)	1)CARE BBB; Negative (14-Feb-20) 2)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (05-Apr-18)
4	Fund-based - LT-Cash Credit	LT	5.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (05-Mar-21) 2)CARE BBB-; Negative (19-Aug-20)	1)CARE BBB; Negative (14-Feb-20) 2)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (05-Apr-18)
5	Non-fund-based - ST-BG/LC	ST	8.75	CARE A4+	-	1)CARE A3 (05-Mar-21) 2)CARE A3 (19-Aug-20)	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)
6	Commercial Paper	ST	-	-	-	-	1)Withdrawn (07-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)
7	Fund-based - ST-Purchase Invoice Financing	ST	55.00	CARE A4+	-	1)CARE A3 (05-Mar-21) 2)CARE A3 (19-Aug-20)	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Purchase Invoice Financing	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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