Caparo Maruti Limited

March 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	68.09	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Short Term Bank Facilities	63.75	CARE A3 (A Three)	Reaffirmed
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 ratings assigned to the bank facilities of Caparo Maruti Limited 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 and moderate capital structure. However, the ratings are constrained by exposure to fluctuation in raw material prices with limited bargaining power and cyclical nature of auto component industry along with moderation in the financial risk profile marked by decline in the total operating income, moderation in the PBILDT margin and losses at net levels.

Rating Sensitivities

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

- Improvement in PBILDT margin beyond 7% with no net losses along with an increase in total operating income.
- Improvement in capital structure with overall gearing below 0.50x.

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

- Decline in the total operating income below Rs.500 cr. with subsequent moderation in the profitability margins.
- Increase in overall gearing beyond 1.2x.
- Any change in the shareholding whereby going forward MSIL reduces its stake significantly

Outlook: Negative

The outlook of the company continues to remain negative on account of expected continuation of losses at net levels. Going forward, the outlook of the company may be revised to 'Stable' if the company is able to achieve better profitability margins and generate enough cash accruals to meet fund requirements for regular capex and payment of debt obligations in case of long-term loans.

CML has taken moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 03, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Detailed description of the key rating drivers

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 component supplier for MSIL. Over the span of more than two decades, the group through various companies have expanded to pan-India presence working mainly for Original Equipment Manufacturers (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. Maruti Suzuki India Limited (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 one of the major suppliers of sheet metal stampings and weldments of specific design to MSIL. CML gets assistance from MSIL for developing the production mechanisms, sharing of risk in terms of raw material fluctuation, granting loans for die procurement etc. CML has plants devoted to the production for MSIL which is also reflected by the fact

that around 75.95% (PY: 73.59%) of the total operating income of the company in FY20 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.

Moderate capital structure

The company has a moderate capital structure characterized by an overall gearing of below 1x for the past three fiscals (FY18-FY20). The overall gearing of the company stood at 0.79x as on March 31, 2020 as against 0.86x as on March 31, 2019. The improvement is on account of repayment of the long-term debt along with the lower utilization of the working capital limits.

Key Rating Weaknesses

Deteriorating financial risk profile

The total operating income of the company has reported a decline of 25% y-o-y to Rs.525.27 crores during FY20 (A) as against Rs.697.63 crores during FY19 (A). The decline has been on account of slow-down in the automobile industry coupled with the impact of Covid-19 on the business operations of the company during March, 2020.

The PBILDT margin of the company have declined by around 218 bps and stood at 1.28% during FY20 (PY: 3.46%). 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 the losses at net levels to Rs.18.76 crores in FY20 as against losses of Rs.6.08 crores in FY19. The company also reported cash losses amounting to Rs.6.73 crore in FY20.

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 72% of total cost of sales. The iron and steel prices have been on the declining trend in FY20 and have started witnessing gradual recovery from May 2020 onwards. 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 Indian auto component industry is highly fragmented with presence of number of units across the nation catering to various domestic original equipment manufacturers as well as the exports market. The Indian auto component industry has a distinct global competitive advantage in terms of cost and quality. The demand for company's products depends upon growth in automobile industry and is directly related to the cyclicality associated with the auto industry. The growth of the industry in short term may be affected due to rising inflation, higher commodity prices, high interest rates and slowdown in the global markets.

CML's product finds applications both in Automobile (PV) and. In FY20, the revenue contribution from auto industry was almost two thirds of the total revenue. Thus the revenue as well as profitability of the company remains exposed to inherent cyclical nature of automobile industry. The economic growth in India and globally had slowed down in FY20 which was further exacerbated by COVID-19. In the domestic business, the PV wholesales declined by ~36% in H1FY21. In Q2FY21, the PV segment witnessed improvement in volumes (retail) sequentially. Also, most OEMs reported robust volume numbers in Q3FY21. Moreover, the need for personal mobility may also increase in the backdrop of COVID which will create demand in the entry level segment.

Liquidity: Stretched

Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and modest cash balance. The cash balance as on March 31, 2020 stood modest at Rs.0.90 crore. Current ratio of CML has been low historically (less than unity) on account of ongoing capex activity over the years. The average fund based working capital utilization in trailing 12 month ended Dec'20 has shown a gradual increasing trend with average of 79% and peak of 96% in Jan, 2020.

The company has displayed efficient management of its working capital cycle with operating cycle days of 18 days (PY: 17 days). The company major supplies sheet metal stampings and weldments to MSIL for its various models. Thus, the company has relatively low bargaining power, thereby leading to slightly higher receivable days. The average collection period stood at 44 days in FY20 (PY: 42 days). However, the company enjoys the benefit of relaxed terms with its supplier (major supplier: TATA Steel), thereby leading to payable days of 63 days in FY20 (PY: 53 days). Further, the company is required to maintain adequate inventory of raw materials for the smooth running of its production processes. The inventory days usually remain around 1 to 1.2 months. Further, the company has taken additional funding under Guaranteed Emergency Credit Line (GECL) from Kotak Mahindra Bank of Rs. 21 crores which supported the company's liquidity.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short-term Instruments
CARE's methodology for auto ancillary companies
CARE's methodology for financial ratios (Non-Financial Sector)
Liquidity analysis-Non-financial sector entities

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)	FY19 (A)	FY20 (A)
Total operating income	697.63	525.37
PBILDT	24.11	6.73
PAT	(6.08)	(18.76)
Overall gearing (times)	0.86	0.79
Interest coverage (times)	2.16	0.46

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	Dec, 2023	63.09	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	8.75	CARE A3
Fund-based - ST-Purchase Invoice Financing	-	-	-	55.00	CARE A3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	-	-	-	-	-	-	-
2.	Not Define-Short Term	-	-	-	-	-	-	-
3.	Term Loan-Long Term	LT	63.09	CARE BBB-; Negative	1)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 BBB-; Negative	1)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 A3	1)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 A3	1)CARE A3 (19-Aug-20)	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)	-

Annexure 3: Complexity level of various instruments rated for this company

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

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

Contact-us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Achin Nirwani
Group Head Contact no.- 011-45333233
Group Head Email ID- achin.nirwani@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no. : 011-45333200/9811745677
Email ID : swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**