Mahabal Auto Ancillaries Private Limited

April 05th, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	41.61 (Enhanced from 26.48)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	0.02	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**41.63 (Rs. Forty-One Crore and Sixty-Three Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmations of the ratings to the bank facilities of Mahabal Auto Ancillaries Private Limited (MAAPL) continue to derive strength from the established track record of the company in the Auto industry, qualified and experienced promoters, strategic location of its plants & diversified product portfolio. The ratings also factor in stable performance of company during FY21(A) (refers to the period from April 01 to March 31) and improved scale of operations and profitability during 9MFY22 (refers to the period from April 01 to December 31), comfortable leverage, moderate debt coverage indicators and adequate liquidity. The rating strengths, however, are constrained by customer concentration risk, competition from organized and unorganized players, moderate scale of operations and inherent risk associated with the volatility in raw material prices.

Rating Sensitivities

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

✓ Improvement in total operating income above Rs.400 crores on a sustainable basics.

✓ Improvement in operating profitability margin the company above 15% on a sustainable basis

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

- Any un-envisaged increase in debt resulting in deterioration of overall gearing ratio to above 0.75x.
- Change in business prospects/industry scenario leading to expectation of significantly lower than projected gross cash accruals.
- Slower than expected ramp up in scale of operations or higher mix of un-machined castings leading to pressure on operating margins and thus leading to deterioration in debt coverage metrics with PBILDT interest coverage below 5.00x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of the company, qualified and experienced promoters

MAAPL has a track record of two and half decades and has established itself as manufacturer of auto components. The company is promoted by first generation promoters – Mr. Shrikant Mahabal, Mr. Hemant Mahabal and Mr. Nishikant Mahabal, all having wide experience of more than twenty-five years in the industry. The directors are involved in day-to-day operations of the company, handling respective functions, and are supported by a team of qualified and experienced professionals.

Strategic location of its plants:

MAAPL have 3 plants, located at Miraj - Maharashtra, Pantnagar - Uttarakhand and Dharwad - Karnataka. The location of two plants, Pantnagar - Uttarakhand and Dharwad - Karnataka plants are located near to customer TATA Motors (rated CARE AA-, Stable; CARE A1+). During FY20 & FY21, the company incurred capex at its Pantnagar - Uttarakhand and Dharwad - Karnataka plants. MAAPL is single source supplier for some products supplying to these two plants of TATA Motors.

Diversified product portfolio catering to different segments of automobile sector:

MAAPL manufactures more than 100 automotive components which include parts for engine application, front axle assembly, Stub Axle Ace, Shifter Dog, Housing Universal Joint and brake systems, pump and hydraulic system primarily catering to tractors, utility vehicles, commercial vehicles, and industrial engines. The company large product portfolio targets different segments of automobiles and sectors which help the company diversify its revenue streams. In line with high demand for tractors in FY21, the company's share of revenue from tractor segment has increased in FY21 & 9MFY22 when compared historically.

Growing yet Moderate scale of operations albeit stable operating profitability

The scale of operations of the company continues to remain moderate. Post decline in revenue in FY20 on account of subdued demand in domestic automobile market; the company's total operating income (TOI) grew by 20% in FY21 Y-o-Y basis to Rs.217.29 crore. Further, led by improved demand especially from the tractor segment, the company's turnover improved to Rs.205.68 crore in 9MFY22 and is estimated to reach Rs.250 crore in FY22. The profitability margins of the company marked by PBILDT margins continued to remain largely stable in FY21. MAAPL reported PBILDT margin of 9.84% in FY21, similar to FY20. Further the company registered a PAT margin of 2.18% in FY21 as against 1.64% in FY20 and 7.83 in FY19. Moreover, on the

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

back of improved realisation the PBILDT margin improved to 11.63% during 9MFY22. Going forward on the back of expected improvement in tractor demand, the PBILDT margins are expected remain elevated in the near to medium term.

Comfortable capital structure and modest debt protection metrics

Over the years, with accretion of profits to its net-worth coupled repayment long-term debt and the capital structure of the company remained comfortable. The lower debt repayment and accretion of profits to reserves resulted improvement in the overall gearing ratio over the years, which stood at 0.20x as on March 31, 2021 (as compared to 0.26 in FY20 and 0.28x as on March 31, 2019). As on March 31, 2021, debt to equity has also improved and stood comfortable at 0.20x (PY 0.26x). Further, the debt coverage indicators continue to remain comfortable in FY21. The total debt/GCA, which stood at 1.32x as at the end of FY21 (as compared to 1.89x in FY20) and the PBILDT interest coverage ratio also was at 5.33x in FY21 as against PY 4.24x.

Key Rating Weaknesses

Established relationship with customers albeit concentration risk

Over the years, the Mahabal group has established long standing relationship with several major OEMs such as Tata Motors Limited (*rated CARE AA-; Stable/ CARE A1+*) & John Deere helping them become Tier 1 suppliers for these companies. However, MAAPL is exposed to customer concentration risk with these two customers are contributing ~90-95% of the total revenue for the last three years ended FY21. MAAPL is in business relationship with TML for more than 25 years. The company has developed long standing relationships for more than two decades with clients; any cyclical or systemic change in demand from any of them may adversely impact performance of the company.

Competition from organized and unorganized players

MAAPL manufactures products and operates in an industry which comprises of several players in the organized as well unorganized sector and is also characterized by high degree of fragmentation. There also exist big sized players resulting in intense competition in the industry. The casting industry is characterized by low entry barriers and low level of product differentiation and availability of standardized machinery for production. However, it is challenging for new entrants to achieve preferred vendor status with OEMs.

Risk associated with volatility in raw material prices

The key raw materials for castings comprise of pig iron and steel, the prices of which fluctuate on a regular basis due to volatility in the global commodity markets. MAAPL has established raw material sourcing arrangement through local suppliers. Moreover, MAAPL operates in an industry where the raw material cost is one of the major cost drivers, (constituting ~41% of total cost of sales for last three years ended FY21) to have a bearing on operating margin. However, prices negotiated at regular intervals with the customers at intervals enables the company to pass on the raw material price rise however only to a limited extent.

Liquidity Analysis - Adequate

Liquidity of MAAPL is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Liquidity is marked by sufficient cash accruals to repayment obligations, unutilized bank limits and cash balance. MAAPL reported a GCA of Rs.15.63 crore in FY21. Furthermore, during FY22 to FY25, the repayment obligations are expected to be in the range of Rs.5 crore-Rs.7 crore against which the company is expected to generate sufficient GCA to the tune of nearly Rs.20 crore-25 crore for upcoming years. The company had an unencumbered cash and cash equivalent to the tune of Rs.5.50 crore as on December 31, 2021.

In addition, the utilization of fund-based limits continues to be on lower side in the range of 5% to 10% for the last twelve months ending January 30, 2022.

Positive outlook for tractor industry:

Tractor has been the best performing segment in FY21 and FY22 till date among the automobiles. A resilient rural economy has spurred demand for agricultural machinery over the last 12-18 months. MAAPL has earned majority of its revenue from tractor segment over FY21 & H1FY22 positively impacted by healthy demand for farm equipment.

Analytical approach: Standalone

Applicable Criteria

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

About the Company

MAAPL has incorporated in 1990. Company is engaged in the procurement of raw forgings and their conversion into various machined and heat treated forged and machined auto components mainly for LCVs and tractors. The company has four manufacturing facilities located at Miraj (Maharashtra), Pantanagar (Uttarakhand), and Dharwad (Karnataka) and is a Tier I supplier to various Original Equipment Manufacturers (OEM) like Tata Motors and John Deere.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	181.63	217.30	205.68
PBILDT	17.88	21.39	23.92
PAT	2.98	4.74	10.20
Overall gearing (times)	0.26	0.20	NA
Interest coverage (times)	4.24	5.33	NA

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: 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
Fund-based - LT-Cash Credit		-	-	-	9.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.02	CARE A3+
Fund-based - LT-Term Loan		-	-	July 2025	32.61	CARE BBB+; Stable

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	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (03-Jul-20) 2)CARE BBB+; Stable (03-Apr-20)	1)CARE BBB+; Stable (01-Apr-19)	1)CARE BBB; Positive (02-Apr-18)
2	Fund-based - LT-Cash Credit	LT	9.00	CARE BBB+; Stable	1)CARE BBB+; Stable (21-Mar-22) 2)CARE BBB+; Stable (06-Apr-21)	1)CARE BBB+; Stable (03-Jul-20) 2)CARE BBB+; Stable (03-Apr-20)	1)CARE BBB+; Stable (01-Apr-19)	1)CARE BBB; Positive (02-Apr-18)
3	Non-fund-based - ST-Bank Guarantee	ST	0.02	CARE A3+	1)CARE A3+ (21-Mar-22) 2)CARE A3+ (06-Apr-21)	1)CARE A3+ (03-Jul-20) 2)CARE A3+ (03-Apr-20)	1)CARE A3+ (01-Apr-19)	1)CARE A3+ (02-Apr-18)
4	Fund-based - LT-Term Loan	LT	32.61	CARE BBB+; Stable	1)CARE BBB+; Stable (21-Mar-22) 2)CARE BBB+; Stable (06-Apr-21)	1)CARE BBB+; Stable (03-Jul-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated facilities: NA

Name of the Instrument	Detailed explanation
A. Financial covenants	
Current ratio	Should not be less than 1.33x
Total outside liabilities/Adjusted Tangible Net Worth	Should not be more than 4.50x
Fixed asset Coverage Ratio	Should not be less than 1.25x
DSCR ratio	Should not be less than 1.25x
B. Non-financial covenants	
Non-submission of Stock Statement by 10th of succeeding month	Will attract penal interest at 2%
Non submission of CMA/Renewal data for the period beyond 1 month	Will attract penal interest at 2%
Non submission of Financial Statement of previous year within 6 months of closure of financial year	Will attract penal interest at 2%
Non-renewal of insurance policy in timely manner / inadequate insurance policy	Will attract penal interest at 2%

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 - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Manohar S Annappanavar
Contact no.: +91-22-6754 3436
Email ID: manohar.annappanavar@careedge.in

Relationship Contact
Name: Aakash Jain
Contact no.: +91-20-4000 9090
Email ID: aakash.jain@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company. With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a 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 Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited'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.careedge.in**