Federal Mogul Goetze India Limited

January 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	174.50 (Reduced from 213.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	72.00 (Enhanced from 66.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**246.50 (Rs. Two Hundred Forty-Six Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Federal Mogul Goetze (India) Limited (FMGI) continue to derive strength from the company's strong parentage and the demonstrated support of the Federal Mogul group in terms of FMGI's access to the group's global managerial and technological expertise. The ratings also factor in FMGI's dominant market position and long track of operations in the piston and piston rings business, its reputed customer base and a diversified revenue stream with business distributed across multiple original equipment manufacturers (OEMs) and aftermarket and a comfortable financial risk profile market by negligible borrowings leading to comfortable leverage and debt metrics and a strong liquidity position. The ratings take cognizance of moderation in company's operating performance marked by lower sales and margins during last couple of years due to overall slowdown in auto sector and disruptions caused by covid-19 pandemic. The ratings, however, remain constrained by the susceptibility of the profitability margins to raw material price fluctuations and the cyclical nature of auto sector.

Rating Sensitivities

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

- Increase in total income above Rs.1,500 crore and increase in PBILDT margin above 15% on a sustained basis.
- Ability to maintain low gearing and liquid balances above Rs.200 crore.

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

- Decline in total income below Rs.1,000 crore and dip in PBILDT margin to below 10%
- Any debt funded capex leading to overall gearing of more than 0.5x and total debt to PBILDT above 2 times.
- Significant decline in liquidity position with average working capital utilization exceeding 80%.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of Federal-Mogul Group (FMG) and dominant market position: Federal Mogul Holdings Limited, Mauritius is the immediate holding company of FMGI, having a shareholding of 60.05% in the company as on September 30, 2021. The ultimate holding company of the group, Federal Mogul LLC, was acquired by Tenneco Inc., USA in October, 2018. Tenneco is one of the world's largest designers, manufacturers and marketers of rise performance and clean air products and systems for automotive and commercial vehicle original equipment markets and the aftermarket. FMGI continues to have an established market position in the domestic piston and piston rings business. This is further strengthened by continuous support received by the company from the parent group, Federal Mogul Group in the form of technical and managerial expertise and financial assistance. FMGI is the 2nd largest player in the organized market of pistons and piston rings in India with more than 30% market share in FY21 (refers to the period from April 1 to March 31).

Reputed customer base and diversified revenue stream marked by OEMs and aftermarket: FMGI's key customers include leading automobile players in India like Mahindra & Mahindra Limited, Bajaj Auto Limited, Maruti Suzuki India Limited, Tata Motors Limited, Hero MotoCorp Limited and Ashok Leyland Limited providing a well-diversified customer base. In addition to OEMs, the group also has presence in replacement market. FMGI's top ten customers contributed to 49% of its gross sales in FY21 (PY: 49%) thereby reflecting reasonably satisfactory diversification in customer base. The company has presence across varied segments including Energy, Industry, Transportation (EIT, 28% of FY21 sales), 2 & 3-wheelers (24% of sales in FY21), commercial Truck and off-highway (CTOH. 48% of FY21 sales) which insulated it from significant impact of slowdown in any single segment. Nonetheless, the company has higher dependence on automobile sector which has impacted its operating performance over the last couple of years.

Moderation in operational performance: The company had been constantly improving its operational performance over the years which however has seen a dip in the last two years. The moderation is primarily on account of the slowdown in the auto industry globally and the Covid-19 impact in various regions across the globe. However, despite the impact of

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

Covid-19 in H1FY21, the company reported a relatively stable scale of operation with top line of Rs. 1107 crore in FY21 which is broadly in line with the total operating income of Rs. 1087 crore in FY20. The profitability margins of the company further moderated to 11.20% in FY21 from 11.49% in FY20 (PY: 15.84%). The moderation was mainly on account of continued lower volumes and scale, an increase in the cost of raw material and employee benefit expenses. Further, the PAT margin moderated from 2.74% in FY20 to 0.07% in FY21 due to the extraordinary expense of Rs. 42.75 crore incurred during the year on account of unfavourable order from the Hon'ble Supreme Court in matter of Management of Federal-Mogul Goetze India Ltd versus Additional Labour Commissioner (Administration) and Appellate Authority & ORS. Furthermore, despite second wave of covid-19, it has reported a higher total operating income of Rs. 663 crore (PY: Rs. 378 crore) during H1FY22. The profitability margins of the company also improved marked by a PBILDT margin of 11.49% (PY: 0.45%) and PAT margin of 3.63% (PY: Loss of Rs.25 crore due to stricter lockdown impact).

Comfortable financial risk profile: FMGI is a virtually debt free company as it doesn't have any long-term debt obligations and working capital limits are also broadly unutilized while the company's net-worth stood healthy at nearly Rs.780 crore as September 30, 2021. Resultantly, the debt coverage indicators remained healthy marked by interest coverage ratio and total debt/ PBILDT of 38.93x and 0.08x respectively as on March 31, 2021 (PY: 23.09x and 0.01x respectively) which further improved to 44.56x and 0.06x respectively as on September 30, 2021. Going forward, FMGIL's capital structure is expected to remain comfortable on account of the company's large net worth base and no debt funded capex plans.

Key Rating Weaknesses:

Susceptibility to raw material price fluctuation: Aluminum, steel and steel alloys are the key raw materials (raw material cost contributed to 35% cost of sales in FY21) used for manufacturing of piston rings. Moreover, other metals such as iron and copper are also consumed for manufacturing piston rings. The company procures raw materials from local manufactures at prevailing market prices Demand for metals, especially aluminum, copper and steel, is cyclical with prices driven by demand and supply conditions in the domestic market, which has strong linkage with the global market. For 75% of OEMs – comprising 90% of total sales – the company can fully pass on the increase or decrease in rates of raw material, since they are procured from OEM-approved suppliers. However, for the residual portion and also for after market segment, the company remains exposed to the raw material price risk.
Industry Prospects: Amidst the rising threat of new variant of Covid-19 (Omicron), the overall demand for automobile industry is expected to remain impacted going ahead. The government has been aggressively driving the vaccination process, although threat of the third wave of the pandemic remains. The elevated fuel and input costs are continuing to dampen the customer sentiment which might restrict the improvement in rural demand. OEMs across the automobile industry are facing challenge of high raw material prices along with chip shortage. Chip shortage issues are expected to ease off gradually over the next fiscal. This in turn is expected to reduce the waiting period – leading to an increase in production volumes of vehicles. Also, softening in commodity prices and year end festive and discount schemes are likely to potentially lead to increase in demand in automobile segment going ahead.

Liquidity: Strong
FMGIL has strong liquidity position as it doesn't have any debt repayment obligations. It had liquid balances of nearly Rs. 130 crore as on March 31, 2021 which has increased to Rs.195 crore as on September 30, 2021. The company has planned a capex of around ~Rs. 93 crore in FY22 for technology up-gradation and modernization will be funded through the internal accruals of the company. The average fund-based working capital utilization of the company stood nil for the trailing 12 months ended November 2021.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies

About the Company
Federal-Mogul Goetze (India) Ltd (FMGI) was established in 1954 as a joint venture with Goetze-Werke of Germany. In 2006, the majority of shareholding of FMGI was acquired by Federal-Mogul Corporation (FMC) USA through its two subsidiaries viz. Federal-Mogul Holdings Limited and Federal-Mogul Vemogensuverwaltungs GMBH.FMGI is engaged in the manufacturing of auto components, primarily focusing on pistons and piston rings. Further, Federal Mogul TPR (India) Limited is a subsidiary of Federal Mogul Goetze (India) Limited. The company is in technical collaboration with Teikoku Piston Ring Company Limited, Japan and Federal Mogul UK Investments Limited, a group company of Tenneco Inc., USA

(from October 01, 2018, erstwhile parent Federal Mogul LLC, USA), manufactures steel rings used in passenger vehicle automobiles.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,087.24	1,107.03	663.08
PBILDT	124.93	123.96	76.20
PAT	29.84	0.77	24.05
Overall gearing (times)	0.00	0.01	0.01
Interest coverage (times)	23.09	38.93	44.56

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: None

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
Fund-based - LT-Working Capital Limits		-	-	-	174.50	CARE A+; Stable
Non-fund-based-Short Term		-	-	-	72.00	CARE A1+

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-Working Capital Limits	LT	174.50	CARE A+; Stable	-	1)CARE A+; Stable (24-Mar-21)	1)CARE A+; Negative (31-Mar-20)	1)CARE A+; Stable (06-Mar-19) 2)CARE A+ (CWD) (19-Apr-18)
2	Non-fund-based-Short Term	ST	72.00	CARE A1+	-	1)CARE A1+ (24-Mar-21)	1)CARE A1+ (31-Mar-20)	1)CARE A1+ (06-Mar-19) 2)CARE A1+ (CWD) (19-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
Ii	
B. Non financial covenants	NA
I	
Ii	

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based-Short 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.

Contact us

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

Analyst Contact
Name: Ajay Kumar Dhaka
Contact no.: 88262 68795
Email ID: ajay.dhaka@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**