Caparo Maruti Limited

March 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	68.09	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	63.75	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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 FY2022 (refers to period April 01 to March 31) which has continued in 9MFY23 (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: Factors likely to lead to rating actions

Positive factors

- Improvement in PBILDT margin beyond 5% 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

- Decline in the total operating income below Rs. 500 cr. with continued losses at operational and net level
- Increase in overall gearing beyond 1.20x

Analytical approach: Standalone

Outlook: Stable

Care Ratings believes that CML will continue to benefit from its long-standing experience of promoters in the industry and its association with MSIL.

Detailed description of the key rating drivers:

Key Weaknesses

Weak Operational and financial risk profile

The TOI of the company improved by 50.31% and stood at Rs. 727.34 Cr (PY: Rs. 483.83 Cr) 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 improved from negative 0.22% during FY21 to profit of 1.55% during FY22. The profitability continues to remain low on account of receipt of lower payment under PCD (Price Cost Deduction y-o-y for the components used in existing models of MSIL) model. However, the company has started receiving new orders from MSIL which is expected to contribute to both topline and bottom line. The company also reported cash loss amounting to Rs. 1.99 Cr in FY22. During 9MFY23, company has reported turnover of Rs. 547.92 signifying recovery in the operations of the company, though, company has still reported net loss of Rs. 8.98 Cr. 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 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 62% in FY22 (PY: 67%) 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 unsecured loans from related parties, claims received from Maruti and other non-operating income. 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. 84% of the limit remained utilised in last 12 months ending December 2022. 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 0.64x as on March 31, 2022 (PY: 0.67x). Also, the new business of Rs. 51.64 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. 70-80 crore in FY24, execution of which will remain a key monitorable.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipment

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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	483.83	727.24	547.92
PBILDT	-1.05	11.30	3.56
PAT	-31.95	-22.94	-22.00
Overall gearing (times)	1.36	2.24	2.97
Interest coverage (times)	-0.08	0.71	0.28

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; Not available

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BB+; Stable
Fund-based - ST-Purchase Invoice Financing		-	-	-	55.00	CARE A4+
Non-fund-based - ST-BG/LC		-	-	-	8.75	CARE A4+
Term Loan-Long Term		-	-	February 2024	63.09*	CARE BB+; Stable

**O/s as on March 2022*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	63.09	CARE BB+; Stable	1)CARE BB+; Stable (01-Apr-22)	-	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)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE BB+; Stable	1)CARE BB+; Stable (01-Apr-22)	-	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)
3	Non-fund-based - ST-BG/LC	ST	8.75	CARE A4+	1)CARE A4+ (01-Apr-22)	-	1)CARE A3 (05-Mar-21) 2)CARE A3 (19-Aug-20)	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)
4	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
								(07-Feb-20) 2)CARE A2+ (03-Apr-19)
5	Fund-based - ST-Purchase Invoice Financing	ST	55.00	CARE A4+	1)CARE A4+ (01-Apr-22)	-	1)CARE A3 (05-Mar-21) 2)CARE A3 (19-Aug-20)	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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About us:

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