

Shivam Autotech Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	238.15 (Enhanced from 173.15)	CARE BB-; Stable	Revised from CARE B; Stable
Short Term Bank Facilities	4.80	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the long-term bank facilities of Shivam Autotech Limited (SAL) factors in the infusion and disbursement of funds amounting to Rs. 105 crores raised from the private investor in the form of Non-Convertible Debentures (NCD) of Rs.80 crore and Optionally Convertible Debentures (OCD) of Rs.25 crore. The funds disbursed were utilised majorly towards repayment of existing debt along with statutory dues and payment to creditors. The fund infusion is expected to ease out the liquidity position of the company in the near term. The ratings, continued to derive strength from the experienced promoters and locational advantage of its manufacturing facilities. The ratings, however, continue to remain constrained by the company's weak operational and financial risk profile, working capital intensive nature of operations, revenue concentration risk towards few customers, low bargaining power with customers, susceptibility to volatile raw material prices and cyclical nature of auto sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in capital structure with overall gearing of less than 1.75x
- Improvement in total debt/GCA below 10x and/ or improvement in PBILDT margin above 15% on a sustained basis
- Efficient management of working capital cycle and lower utilisation of working capital limits leading to improvement in liquidity position

Negative factors

- Decrease in total operating income below Rs. 450 crores and or decline in PBILDT margin below 12%
- Further elongations in working capital cycle and resultant weakening of liquidity position.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE's expectation of healthy order inflow on the back of established relationship with reputed clientele and improvement in production efficiency giving way to increasing cashflows from operations.

Detailed description of the key rating drivers:

Key weaknesses

Weak overall financial risk profile

During FY23, the company reported stable total operating income of Rs. 471.05 crores (PY: Rs. 469.20 crore). However, the PBILDT margin has shown a significant decline to 10.65% in FY23 as against 15.19% in FY22 mainly due to increase in the cost of raw material and other consumable stores. Consequently, the net loss of the company increased to Rs. 34.72 crore in FY23 from Rs. 16.06 crore in FY22.

The capital structure of the company continues to be leveraged with overall gearing of 4.10x as on March 31, 2023 which deteriorated from 2.81x as on March 31, 2022 largely on account of depletion of net worth and increase in unsecured loans. The promoter entities have infused Rs. 45.69 crore during FY23 to support the operations of the company.

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

Revenue concentration risk

SAL derives majority of its revenue from single client: Hero MotoCorp Limited (HML). HML contributes around 40% of revenue of SAL. Further, majority of its product manufactured such as gears and shafts find its usage in two wheelers. As a result, SAL is exposed to customer concentration as well as segment concentration risk.

Low bargaining power with customers and susceptibility of margins to volatility in raw material prices

Though there exists limited bargaining power with the customers, since the major customers are auto companies/OEMs, however, the company does have a mechanism wherein any revision in the raw material prices is reset by the OEMs on monthly basis and the change in the raw material prices are accommodated subsequently. The major raw material (Steel) cost accounts for around 50% of total operating income, further, global prices for steel are volatile which exposes SAL to price risk.

Cyclical nature of the automotive industry

The automobile industry is highly cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Further, the auto-ancillary industry is highly competitive with the presence of a large number of players in the organized as well as unorganized sector

Key strengths**Infusion of funds by Modulus Alternatives (private investor)**

SAL has raised Rs. 105 crores from Modulus Alternatives Investment Managers Limited in the form of Rs. 80 crores of NCD and Rs. 25 crores of OCD at IRR of 15% p.a. The funds have been largely utilised for repayment of term loan and payment to creditors and statutory dues. Further, the company has undisbursed credit line of NCD which can be utilised as and when required by the company.

Experienced promoters

SAL is part of the Satyanand Munjal Group (Late Mr Satyanand Munjal was brother of Late Mr BrijMohan Lal Munjal) and was started in 1999 to meet the requirement of HML's component requirements. Subsequently in 2005, SAL was hived off from Munjal Auto Industries Ltd with focus on the forging and machinery division. The company's Chairman, Mr. Yogesh Chandra Munjal (son of Late Mr Satyanand Munjal) has a vast experience in the two-wheeler industry. Mr. Neeraj Munjal, Managing Director has almost two decades of experience in the auto component sector. Mr. Munjal holds a Diploma in Business Management from Bradford & Ilkley Community College, England, besides a Bachelor's Degree in Commerce.

Location advantage

The company's business profile is strongly linked with HML which is the largest customer of SAL and accounted for approximately 40% of sales. On the other hand, HML is also dependent on SAL for procurement of gears and shafts which accounts for approximately 65-70% of its overall requirement. Thus, the two companies have strong operational linkages. Most of the manufacturing plants of SAL are located in the vicinity of HML's manufacturing plant.

Liquidity: Stretched

The stretched liquidity is marked by tightly matched cash accruals of around Rs. 37 crores against repayment obligations of Rs. 33.79 crores in FY24. The liquidity will be supported by undisbursed credit lines of NCD which can be utilised as and when required.

Historically, the company has been making repayments by stretching its creditors. The average credit period stood at 69 days in FY22. The company relies heavily on bank funds for its working capital requirements which remains almost fully utilised.

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](#)

[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 & Equipments

SAL, formerly known as Munjal Auto Components, commenced operations in Sep-1999 as an autonomous wing of 'HERO' Group. Later in 2005, the forging and machinery divisions were hived off and thus SAL was incorporated in July 29, 2005. The company is engaged in manufacturing of transmission gear & shafts, Precision Engineering Components (PECs), etc. for two wheelers. SAL has four plants located in Gurgaon, Haridwar, Bengaluru and Rohtak.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	469.20	471.05	108.60
PBILDT	71.26	50.18	10.03
PAT	-16.06	-34.72	-12.60
Overall gearing (times)	2.81	4.10	NA
Interest coverage (times)	1.41	1.01	0.74

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	77.70	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	31/01/2027	130.20	CARE BB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	30.25	CARE BB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	4.80	CARE A4

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	Date(s) and Rating(s) assigned	Date(s) and Rating(s) assigned	Date(s) and Rating(s) assigned

					in 2023-2024	in 2022-2023	in 2021-2022	in 2020-2021
1	Fund-based - LT-Term Loan	LT	130.20	CARE BB-; Stable	-	1)CARE B; Stable (30-Sep-22)	1)CARE D (23-Feb-22)	1)CARE D (25-Nov-20) 2)CARE BB; Negative (06-Oct-20) 3)CARE BBB-; Negative (22-May-20)
2	Non-fund-based - ST-BG/LC	ST	4.80	CARE A4	-	1)CARE A4 (30-Sep-22)	1)CARE D (23-Feb-22)	1)CARE D (25-Nov-20) 2)CARE A4 (06-Oct-20) 3)CARE A3 (22-May-20)
3	Fund-based - LT-Cash Credit	LT	77.70	CARE BB-; Stable	-	1)CARE B; Stable (30-Sep-22)	1)CARE D (23-Feb-22)	1)CARE D (25-Nov-20) 2)CARE BB; Negative (06-Oct-20) 3)CARE BBB-; Negative (22-May-20)
4	Fund-based - LT-Working Capital Limits	LT	30.25	CARE BB-; Stable	-	1)CARE B; Stable (30-Sep-22)	1)CARE D (23-Feb-22)	-

*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 - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - ST-BG/LC	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.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Dinesh Sharma Director CARE Ratings Limited Phone: +91-120-445 2000 E-mail: dinesh.sharma@careedge.in	Analytical Contacts Sajan Goyal Director CARE Ratings Limited Phone: +91-120-445 2017 E-mail: sajan.goyal@careedge.in Puneet Kansal Associate Director CARE Ratings Limited Phone: +91-120-445 2018 E-mail: puneet.kansal@careedge.in Sunidhi Vyas Lead Analyst CARE Ratings Limited E-mail: sunidhi.vyas@careedge.in
---	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings 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 have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings 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 is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in