Caparo Maruti Limited

March 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	16.67 (Reduced from 68.09)	CARE BB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	75.00 (Enhanced from 55.00)	CARE BB+; Stable / CARE A4+	Revised from CARE A4+
Short Term Bank Facilities	7.00 (Reduced from 8.75)	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Caparo Maruti Limited takes into account continued weak operational performance of the company marked by reported net loss during FY23 (refers to the period from April 01 to March 31) which has continued during 8MFY24 (refers to the period from April 01 to November 30) albeit with modest cash profit. Further, the ratings 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 and debt coverage indicators. However, the ratings of the company derive strength from Caparo Maruti Limited's strong business association with Maruti Suzuki India Ltd (MSIL), which maintains its dominance in the passenger car segment in India along with its promoter's extensive experience in the auto component business with established track record of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in PBILDT (Profit before interest, lease rentals, depreciation and taxes) 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 crore with continued losses at operational and net level.

Analytical approach: Standalone factoring in financial support from its group companies in form of inter corporate deposits.

Outlook: Stable

The "Stable" outlook is on the basis of new orders received from MSIL which might improve the profitability margins of the company in medium term.

Detailed description of the key rating drivers:

Key weaknesses

Weak Operational performance albeit new orders received from the OEMs

The Total Operating Income (TOI) of the company remained stable at Rs 689.94 Cr (PY: Rs 727.34 Cr), the slight decline was on account of transition from BS4 to BS6 engine which led to discontinuation of certain products along with reduction in realisation price for certain old models. Further, the company reported operating losses in FY23 of Rs 4.82 crore vis-à-vis operating profits of Rs 9.82 crore in 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 along with high power cost due to Russia Ukraine war. 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. 18.84 Cr in FY23.

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

8MFY24: CML has reported turnover of Rs 356.10 Cr with operating profits of 3.44% signifying recovery in the operations of the company, though, company has still reported net loss of Rs. 9.52 Cr. The new business (from new model launches by the Original Equipment Manufacturer (OEM)) worth Rs 162 crore from MSIL and around Rs 14 crore from JCB are expected to start from FY25 and thereby providing moderate visibility of profitability in the ensuing year. Additionally, transitioning to grid-based power supply and implementing cost-saving measures might improve the profitability margins of the company.

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 80% 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.

Moderate financial risk profile
The company's financial risk profile is moderate as marked by a high overall gearing ratio of 4.51 times as of March 31, 2023 (compared to 2.24 times in the previous year). This increase in gearing was primarily due to significant losses reported in FY23, coupled with losses in the past fiscals has led to gradual erosion of the company's net worth base. The company's debt profile comprises working capital borrowings, term loans, and Inter-corporate deposits (ICDs) from group companies. The company has received an extension from the group companie for the repayment of these ICDs. Additionally, the debt coverage indicators stood weak as marked by negative interest coverage in FY23.

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 component's 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 three 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 63% in FY23 (PY: 62%) 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 a lower generation of cash accruals envisaged vis-à-vis debt repayments for fiscal FY24. Though, the company has managed its repayment obligations by way of claims received from MSIL and other non-operating income. The company has also deposited DSRA in the form of fixed deposits amounting to Rs 6 crore on account of non-achievability of projected revenue and profitability. The current ratio of the company has remained low and stood at 0.39x as on March 31, 2023 (PY: 0.64x). The cash and bank balance as on November 30, 2023, stood at Rs 1.12 crore. However, the company has received new orders from MSIL and other OEMs, the execution of which remains a key monitorable.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

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

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, 2022 (A)	March 31, 2023 (A)	8MFY24 (UA)
Total operating income	727.24	689.63	356.10
PBILDT	9.82	-4.82	12.24
PAT	-22.94	-39.06	-9.52
Overall gearing (times)	2.24	4.51	4.60
Interest coverage (times)	0.68	-0.30	1.23

A: Audited UA: Unaudited; 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/ ST-Working Capital Limits		-	-	-	75.00	CARE BB+; Stable / CARE A4+
Fund-based-Long Term		-	-	-	5.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	7.00	CARE A4+
Term Loan-Long Term		-	-	December 2025	11.67	CARE BB+; Stable

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 2023-2024	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
1	Term Loan-Long Term	LT	11.67	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Mar-23) 2)CARE BB+; Stable (01-Apr-22)	-	1)CARE BBB-; Negative (05-Mar-21) 2)CARE BBB-; Negative (19-Aug-20)
2	Fund-based-Long Term	LT	5.00	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Mar-23) 2)CARE BB+; Stable (01-Apr-22)	-	1)CARE BBB-; Negative (05-Mar-21) 2)CARE BBB-; Negative (19-Aug-20)
3	Non-fund-based - ST-BG/LC	ST	7.00	CARE A4+	-	1)CARE A4+ (24-Mar-23)	-	1)CARE A3 (05-Mar-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						2)CARE A4+ (01-Apr-22)		2)CARE A3 (19-Aug-20)
4	Fund-based - LT/ ST-Working Capital Limits	LT/ST	75.00	CARE BB+; Stable / CARE A4+	-	1)CARE A4+ (24-Mar-23) 2)CARE A4+ (01-Apr-22)	-	1)CARE A3 (05-Mar-21) 2)CARE A3 (19-Aug-20)

LT: Long term; ST: Short term; LT/ST: 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/ ST-Working Capital Limits	Simple
2	Fund-based-Long Term	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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