Federal Mogul Goetze India Limited

March 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	58.50 (Reduced from 74.50)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	141.00 (Enhanced from 121.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Federal Mogul Goetze India Limited (FMGIL) continue to derive strength from the company's strong parentage and demonstrated support of the Federal Mogul group in terms of FMGIL's access to the group's global managerial and technological expertise. Ratings also factor in FMGIL's dominant market position and long track of operations in the piston and piston rings business, its reputed customer base, a diversified revenue stream, business distributed across multiple original equipment manufacturers (OEMs) and aftermarket, increasing scale, improving profitability margins and a comfortable financial risk profile, marked by negligible borrowings, leading to comfortable leverage and debt metrics and a strong liquidity position.

However, ratings, remain constrained by profitability margins susceptible to raw material price fluctuations and cyclical nature of the auto sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing total income above ₹1,700 crore and increasing PBILDT margin above 15% on a sustained basis.
- Maintaining low gearing and liquid balances above ₹200 crore.

Negative factors

- Declining total income below ₹1,000 crore and dipping PBILDT margin to below 10%.
- Debt-funded capex, leading to overall gearing of more than 0.5x and total debt to PBILDT above 2x.
- Significantly declining liquidity position with average working capital limit utilisation exceeding 80%.

Analytical approach: Standalone

Outlook: Stable

The stable outlook assigned to long-term bank facilities of the company is from CARE Ratings Limited's (CARE Ratings) expectation of stable profitability margins post steady scaling-up of operations in the medium term. The company's solvency and liquidity position is also expected to remain at comfortable mainly due to nil term-debt repayment obligation and strong liquidity available from free cash balances and liquid investments.

Detailed description of key rating drivers

Key strengths

Strong parentage of the Federal-Mogul Group (FMG) and dominant market position

Federal Mogul Holdings Limited, Mauritius is the immediate holding company of FMGIL, holding 60.05% shares as on December 31, 2023. The ultimate holding company of the group, Federal Mogul LLC, was acquired by Tenneco Inc., USA in October 2018. In November 2022, the fund managed by Apollo Global Management Inc completed acquiring Tenneco, with the entire shareholding earlier owned by Tenneco now being held by the Apollo group. FMGIL continues to have an established market position in the domestic piston and piston rings business. This is further strengthened by continuous support received from the parent group, Federal Mogul Group as technical and managerial expertise and financial assistance. FMGIL is the second largest player in the organised market of pistons and piston rings in India with ~28.79% market share in FY23 (refers to April 1 to March 31)

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

Reputed customer base and diversified revenue stream

FMGIL's key customers include leading automobile players in India such as 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 the replacement market. FMGIL's top 10 customers contributed ~53% of its gross sales in FY23 (PY:47%), reflecting reasonably satisfactory diversification in customer base. The company has presence across segments including light vehicles (45-50% of the total sales in FY23), 2&3-wheelers (15-20%), commercial vehicles (15- 20), and others (10-15%), which insulates it from significant impact of slowdown in a single segment.

Increasing scale of operations, improving profitability margins and comfortable financial risk profile

The company's operating income increased by a healthy 22.30% in FY23, on a year-on-year basis, marked by increased demand and higher sales realisations. The PBILDT margins slightly improved to 11.65% in FY23, compared to 10.68% in FY22; while the PAT margin improved to 6.01% in FY23 as compared to 3.98% in FY22. In 9MFY24 (UA) also, the uptrend in sales continued with operating income increasing by a healthy 4.12%, compared to the same period last year. PBILDT margins stood at 12.75% in the period (11.81% in 9MFY23). FMGI's credit profile remained comfortable over the years, as it has negligible debt obligation while its net-worth stood at a healthy level. Debt coverage indicators remained healthy marked by interest coverage ratio and total debt/PBILDT of 39.38x and 0.23x respectively as on March 31, 2023 (PY: 29.04x and 0.46x, respectively). The overall gearing ratio also continued to remain at a healthy level. Going forward, FMGIL's capital structure and debt coverage indicators are expected to remain comfortable considering its large net worth base and no debt-funded capex plans.

Liquidity- Strong

FMGIL has strong liquidity, as it has minimal term debt. The company has cash and liquid investments of nearly ₹307 crore, as on September 30, 2023. The company has planned a capex of around ~₹75 crore in FY25 and almost a similar amount for FY26, which is expected to be completely funded through its internal accruals. Average fund-based working capital limit utilisation stood nil for 12-months ended December 2023.

Key weaknesses

Margins susceptible to raw material price fluctuations

Aluminium, steel, steel alloys are key raw materials (raw material cost contributed ~48% of the cost of sales in FY23) used for manufacturing piston and piston rings. 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 is cyclical with prices driven by demand and supply conditions in the domestic market, which has strong linkages with the global market. For 75% of OEMs (comprising 90% of total sales), the company can fully pass on increase or decrease in raw material rates, since they are procured from OEM-approved suppliers. However, for the residual portion and for the aftermarket segment, the company remains exposed to raw material price risk.

Industry Prospects

The automobile industry, to which FMGIL caters, is cyclical. Though industry demand was impacted by the pandemic, there has been a gradual improvement, which was in tandem with the economy opening in FY23 and FY24. The overall domestic sales for the automobile industry in FY23 grew by 20.35% compared to the same period last year. Growth has been primarily driven by the two-wheelers, passenger vehicles, and commercial vehicles due to robust festival and wedding season and an increase in infrastructure spending. It is expected that the domestic automobile industry sales volume will grow by 7-9% in FY24.

Environmental, Social and Governance Risk assessment

Environmental**-** FMGIL maintains a pollution-free environment by reducing/eliminating waste, and optimum power utilisation. The company uses 95% of wheeling energy (wind/hydro/solar energy), focussing on reducing green-house gases. For waste management, the company recycles 10-15% waste and focusses on waste reduction programs by treating water from the effluent treatment plant and the sewage treatment plant for gardening, disposal of waste to cement industries for coprocessing to avoid land fill, reducing water consumption by process improvements, reducing hazardous waste generation by process improvements.

Social- CSR projects currently aim to promote basic education, environment plantation drive, protection of wildlife, and preventive healthcare, rural development project, employment enhancing vocational skills, and women empowerment. The company has a corporate social responsibility (CSR) committee constituted by the board. The company has adopted a well-

defined policy on CSR on the recommendations of the CSR committee per the requirement of Section 135 of the Companies Act, 2013.
Governance- The company is committed to good corporate governance practices. The board adheres to standards set by the Securities and Exchange Board of India (SEBI), corporate governance practices and has implemented all major stipulations prescribed. There are audit committee, nomination and remuneration committee, stakeholders' relationship committee; corporate social responsibility committee; share transfer committee; and risk management committee, showing appropriate risk management framework adopted by the company. The company is managed by a professional board of directors, who have extensive experience in auto ancillary industry and is well-diversified with two independent directors.

Applicable criteria

Definition of Default
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 and equipment

Federal Mogul Goetze India Ltd (FMGI) was established in 1954 as a joint venture with Goetze-Werke of Germany. In 2006, majority shareholding of FMGI was acquired by Federal-Mogul Corporation (FMC) USA through its two subsidiaries: Federal-Mogul Holdings Limited and Federal-Mogul Vemogensuverwaltungs GMBH. FMGI is engaged in manufacturing auto components, primarily focusing on pistons and piston rings. 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 for passenger vehicle automobiles.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (Prov.)
Total operating income	1326.91	1616.71	1266.22
PBILDT	141.71	188.27	161.54
PAT	52.75	97.23	87.66
Overall gearing (times)	0.08	0.05	NA
Interest coverage (times)	29.04	39.38	46.41

A: Audited; Prov.: Provisional; 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 to Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of 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-Working Capital Limits		-	-	-	58.50	CARE A+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	10.00	CARE A1+
Non-fund-based-Short Term		-	-	-	131.00	CARE A1+

Annexure-2: Rating history for 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	Fund-based - LT-Working Capital Limits	LT	58.50	CARE A+; Stable	-	1)CARE A+; Stable (27-Mar-23)	1)CARE A+; Stable (06-Jan-22)	1)CARE A+; Stable (24-Mar-21)
2	Non-fund-based-Short Term	ST	131.00	CARE A1+	-	1)CARE A1+ (27-Mar-23)	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (24-Mar-21)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.00	CARE A1+	-	1)CARE A1+ (27-Mar-23)	-	-

LT: Long term; ST: Short term;

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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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.

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