Continental Automotive Components (India) Private Limited

August 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	150.00	CARE AA (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed its rating assigned to bank facilities of Continental Automotive Components (India) Private Limited (CACIPL) on rating watch with developing implications. The rating action on CACIPL follows the recent announcement from CACIPL's parent, Continental AG, whereby following a strategic review, the Continental AG's Executive Board has decided to evaluate in detail, a spin-off with subsequent 100% public listing of the Automotive group. In case of a spin-off, Continental AG shareholders will become direct shareholders of the new Automotive Group and CACIPL's parent will change from Continental AG to new Automotive Group. Based on detailed evaluation, the Executive Board is expected to decide on the spin-off by end-CY24. Subject to the corresponding resolutions of the Executive Board, Supervisory Board and the shareholders, in case of approval, the spin-off is expected to be completed by the end of CY25.

The above transaction is subject to approvals and is currently at an evaluation stage. CARE Ratings would continue to monitor the developments in this regard and will take a view on CACIPL's rating once the spin-off plans of Continental AG are finalised and their impact on CACIPL's business and financial risk profile is clear.

The rating continues to factor in strong parentage and strong operational and financial support extended, being wholly owned step-down subsidiary of Continental AG. The rating also factors in robust financial risk profile, healthy and improving business risk profile marked by strong clientele relationship with low counterparty credit risk driving stable total operating income (TOI), healthy operating profitability margins, and stable working capital cycle with nil working capital limits utilisation.

However, the rating strengths are tempered by its exposure to cyclicality in the automotive industry, profitability susceptible to fluctuations in raw material prices and forex rates volatility, low bargaining power with original equipment manufacturers (OEMs), and high competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant scaling-up of operations, with revenue > ₹5,000 crore on a consistent basis.
- Improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins above 18% on a sustained basis.

Negative factors

- Declining PBILDT margins below 14% on a sustained basis and declining scale of operations.
- Debt-funded capex/acquisition leading to deteriorating overall gearing to 0.30x and above on a sustained basis.
- Adverse outcome of income tax demand disputed by the company under contingent liability, impacting its liquidity profile.
- Deteriorating credit rating profile of the parent.

Analytical approach: Standalone

For arriving at the rating, CARE Ratings has used its notch-up framework factoring in the support that it derives by being wholly owned step-down subsidiary of Continental AG. CACIPL enjoys strong operational and financial linkages from Continental AG.

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

Detailed description of key rating drivers:

Key strengths

Strong parentage and track record of support

Being a wholly owned step-down subsidiary, CACIPL enjoys operational and financial support from its ultimate holding company Continental AG. Operational support is provided in the form of technological support, assistance for conducting daily operations like acquisition of raw materials, plant & machinery among others. Financial support is also extended by way of regular equity infusions to fund capex requirements of the company and such support is expected to continue going forward. In FY23, the parent infused about ₹608.7 crore to fund the acquisition for building.

Robust financial risk profile

The company's financial risk profile is characterised by robust capital structure and strong debt coverage indicators, which has further improved in FY24 with accretion of profits to reserves and nil utilisation of working capital limits. The company has robust capital structure with overall gearing of 0.01x as on March 31, 2024 (PY: 0.08x) considering healthy accretion of profits to reserves and absence of term debt and low utilisation of working capital limits. The debt coverage indicators such as total debt to gross cash accruals (TD/GCA), total debt/PBILDT remain below unity as on March 31, 2024. Going forward, CARE Ratings expects the overall gearing to remain comfortable owing to healthy cash accruals with no plans for major debt availment.

Established clientele with low counterparty credit risk

CACIPL supplies auto components to Indian and international auto OEMs. As a result of strong credit profile of these clients, counterparty credit risk is limited to a certain extent. The company's exposure to credit risk is reduced to a certain extent as ~42% (PY: ~45%) of total revenue from operations in FY23 was derived from Continental Group companies and ~37% (PY: ~54%) of trade receivables are from related parties as on March 31, 2023. The company follows a strategy of made-to-supply, wherein the company produces the auto components, which are customised per the customers' requirement.

Healthy business risk profile, driven by improving TOI and healthy margins

Over the years, CACIPL's revenue profile has shifted from sale of products to rendering services with 40% of the revenue derived from rendering software services to the Continental group on a captive basis in FY23. The company's operating margins remain healthy at 13.01% in FY24. While CACIPL's revenue profile is concentrated with the Continental group, it ensures regular cashflows and healthy margins for CACIPL.

Stable working capital cycle

The company's working capital cycle is stable at ~40 days. The company's key raw materials are ferrous alloy metals and mechanical, electronic, non-ferrous, magnetic, and plastic components. Approximately 75% of total raw material purchases are imported, whereas the balance is sourced from the domestic market. The inventory stocking period is 30 to 45 days. The company is required to maintain optimal inventory to meet the customer demand and unforeseen supply shortage. The company extends credit period of 60 to 90 days to its customers and its vendors extend the credit period of around 60-90 days. Credit risk is limited to an extent as around 37% of trade receivables are from related parties.

Liquidity: Strong

Liquidity is marked as strong considering strong cash accruals, strong cash and cash equivalents of ₹712.19 crore as on March 31, 2024, absence of term debt obligations, liquidity buffers of ₹358 crore in the form of unutilised working limits, and absence of significant capex requirements in the medium term. With a gearing of 0.01x as on March 31, 2024, the company has significant gearing headroom, to raise additional debt for its capex requirements, if any. The company's liquidity profile is also supported by financial flexibility it has as a wholly owned step-down subsidiary of Continental AG. CARE Ratings believes that such support will be maintained going ahead as well.

Key weaknesses

Cyclicality in automotive industry

The auto ancillary industry depends on the cyclicality in the automotive industry, which is inherently vulnerable to economic cycles, industrial growth, investments in infrastructure, regulatory changes (emission norms, scrappage policy, overloading norms), disposable income and household consumer spending and preferences which can be affected by a number of factors, including fuel costs and availability & cost of consumer financing. A hike in interest rate increases the costs associated with the purchase leading to purchase deferral. Higher fuel prices tend to shift consumer preferences to ride-sharing apps over owning a vehicle. This and the entry of many global manufacturers has altered the market equation, making it a challenging business.

Susceptibility to fluctuation in raw material prices

CACIPL's raw material prices are highly volatile and hence the operating profitability margins are susceptible to raw material price volatility. At present, the company follows the practice of Continental Group for not actively hedging against the risk of rising prices of electronic components or raw materials by using derivative instruments. Most of its raw material requirements are met through imports. CACIPL sources raw materials based on the global sourcing arrangement wherein prices are negotiated globally so that the Continental group benefits of the pricing advantage for the bulk purchases based on the global pricing arrangements. In case of adverse movement in raw material prices, CACIPL due to its long-standing relationship with the clients, has the ability to pass on the increase in raw material prices despite with a lag.

Susceptibility to fluctuation in forex rates

The company is primarily engaged in manufacturing auto components and exporting software services to its group companies. Most of these group companies are incorporated outside India. Approximately 75% of the company's raw material requirements are met through imports. Thus, the company has natural hedge to a certain extent. The company is net importer and is inherently exposed to foreign currency fluctuation risk. The company does not have hedging policy. The company reported forex loss of ₹15.89 crore in FY23 as against forex loss of ₹10.35 crore in FY22. The company's margins remain exposed to forex rate fluctuation.

Low bargaining power with customers and high competition

The auto ancillary industry is highly competitive with the presence of large number of players in the market. The industry also faces threat of forward integration by OEMs. All these factors limit CACIPL's bargaining power. However, the company has long-term contracts from OEMs and its entire sales are order made, helping it maintain its operating profitability margins to a certain extent.

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
Service Sector Companies

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

CACIPL, erstwhile Siemens VDO Automotive Components Private Limited, incorporated in 2007 is a wholly owned subsidiary of Continental AG, Germany. Continental AG is one of the top automotive suppliers worldwide in the areas of brake systems, systems and components for powertrains and chassis, instrumentation, infotainment solutions, vehicle electronics, technical elastomers, and the world's fourth-largest manufacturer of passenger and commercial vehicle tyres. CACIPL's operations primarily relate to manufacturing and trading auto components such as instrument clusters, airbag control units, antilock braking systems, immobilizers, body control modules, engine control units, and electric power control units among others. It also provides software development services to its group companies on a captive basis.

Brief Financials (₹ crore)	FY23 (A)	FY24 (Prov.)
Total operating income	3,833.23	4,100.00
PBILDT	575.62	533.21
PAT	190.61	129.56
Overall gearing (times)	0.08	0.01
Interest coverage (times)	15.22	234.38

A: Audited Prov.: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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	-	-	-	-	150.00	CARE AA (RWD)

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 2024-2025	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
1	Fund-based - LT-Working capital limits	LT	150.00	CARE AA (RWD)	-	1)CARE AA; Stable (02-Jun-23)	-	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working capital limits	Simple

Annexure-5: Lender details

To view 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

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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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