

Shivam Autotech Limited

February 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	59.83	CARE D (Single D)	Assigned
Long Term Bank Facilities	313.03 (Reduced from 431.74)	CARE D (Single D)	Reaffirmed
Short Term Bank Facilities	10.00 (Reduced from 40.00)	CARE D (Single D)	Reaffirmed
Total Bank Facilities	382.86 (Rs. Three Hundred Eighty-Two Crore and Eighty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Shivam Autotech Limited (SAL) continues to take into account the instances of delay in servicing of debt obligations by the company. The delays were attributable to poor liquidity position, impact of COVID-19 on the operations of the company and sizeable debt repayment obligations.

The ratings, are further, constrained by the leveraged capital structure of the company characterized by significant capex incurred in the past, working capital intensive nature of operations, revenue concentration risk towards few customers and cyclical nature of auto sector. The ratings also take cognizance of the improvement in operational profit during FY21 (refers to the period April 01 to March 31) and 9MFY22 (refers to the period April 01 to December 31) though the company continued to report losses at the net level.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Establishing track record of timely debt servicing of debt obligations for a continuous period of 90 days
- Improvement in liquidity position of the company

Detailed description of the key rating drivers

Key Rating Weaknesses

Delays in servicing of debt obligations

There have been instances of delays in servicing of debt obligations by the company. The delays were largely attributable to disruptions in the operations owing to COVID-19 pandemic resulting in weakening of operational profile and liquidity position of the company.

The company however, took cost rationalisation measures in a bid to improve the profitability. The PBILDT margin of the company thus, increased to 16.37% in FY21 from 8.84% in FY20, on a total operating income of Rs. 489.76 crores in FY21 (PY: Rs. 588.23 crores). Though the company continued to report losses at net level of Rs. 22.53 crores in FY21 (PY: Rs. 37.13 crores) on account of high interest and depreciation cost, the cash accruals turned positive to Rs. 22.65 crores during FY21 as against negative cash accruals of Rs. 0.43 crores during FY20.

During 9MFY22 (UA), the company has recorded PBILDT margin of 14.36% on a total income of Rs. 359.71 crores.

Leveraged capital structure marked by significant debt-funded capex incurred in the past

During FY16-20, the company had incurred total capex of around Rs. 415 crores to meet the demand of existing customers and add new customers. The capex was funded through term loans of Rs. 321 crores and rest from capital advances and internal accruals. In FY21, the total debt of the company further increased to Rs. 486.34 crore as on March 31, 2021 from Rs. 439.03 crore as on March 31, 2020. The high debt facilities availed and erosion of networth owing to continued losses led to further deterioration in the overall gearing which stepped up from 3.27x as on March 31, 2020 to 4.34x as on March 31, 2021.

Revenue concentration risk

SAL derives majority of its revenue from single client: HML. During FY21, SAL derived 61% of its revenue from HML. Furthermore, majority of its product manufactured such as gears and shafts find usage in two wheelers; thereby exposing the company towards customer concentration risk as well as segment concentration risk. Any change in procurement policy of major customers 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.

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

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. Furthermore, the auto-ancillary industry is highly competitive with the presence of a large number of players in the organized as well as unorganized sector

Liquidity: Poor

Liquidity position of the company is poor as evinced by its inability to service its debt obligations in a timely manner. The liquidity profile is delicately poised due to high working capital utilization and poor liquidity position is also reflected from weak current ratio which stood at 0.71x as on March 31, 2021. The projected gross cash accruals of around Rs. 59 crores are not sufficient to meet the repayment obligations for FY22 which stands at Rs. 99.67 crore and the gap has been met by availing Guaranteed Emergency Credit Line (GECL) of Rs. 79.40 crores.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

About the Company

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. In order to reduce its costs, the Company has decided to close manufacturing activities at its plant situated at Manesar Gurugram

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	588.23	489.76	359.71
PBILDT	51.99	80.19	51.65
PAT	-37.13	-22.53	-17.88
Overall gearing (times)	3.27	4.34	-
Interest coverage (times)	0.98	1.41	1.35

A: Audited; UA: Unaudited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Nov 2026	223.03	CARE D
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE D
Fund-based - LT-Cash Credit		-	-	-	90.00	CARE D
Fund-based - LT-Working Capital Limits		-	-	-	59.83	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	223.03	CARE D	-	1)CARE D (25-Nov-20) 2)CARE BB; Negative (06-Oct-20) 3)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Negative (17-Feb-20) 2)CARE BBB; Negative (20-Aug-19)	1)CARE BBB+; Stable (13-Feb-19)
2	Non-fund-based - ST-BG/LC	ST	10.00	CARE D	-	1)CARE D (25-Nov-20) 2)CARE A4 (06-Oct-20) 3)CARE A3 (22-May-20)	1)CARE A3+ (17-Feb-20) 2)CARE A2 (20-Aug-19)	1)CARE A2+ (13-Feb-19)
3	Fund-based - LT-Cash Credit	LT	90.00	CARE D	-	1)CARE D (25-Nov-20) 2)CARE BB; Negative (06-Oct-20) 3)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Negative (17-Feb-20) 2)CARE BBB; Negative (20-Aug-19)	1)CARE BBB+; Stable (13-Feb-19)
4	Fund-based - LT-Working Capital Limits	LT	59.83	CARE D				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of 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: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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