Modern Automotives Limited

November 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	53.22	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	0.75	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**53.97 (₹ Fifty-Three Crore and Ninety-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Modern Automotives Limited (MAL) continues to derive strength from its experienced promoters with proven track record of operations and established relationship with reputed clientele. The ratings also continue to take comfort from the moderate operational risk profile of the company characterized by stable total operating income during FY22 (refers to the period from April 01 to March 31). These rating strengths are, however, partially offset by leveraged capital structure with moderate debt coverage indicators, elongated inventory holding period resulting in high reliance on working capital borrowings and volatility in raw material prices. The ratings also continue to remain constrained by the high customer and segment concentration risk.

Rating sensitivities

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

- Increasing the scale of operations with TOI improving to Rs 350 crore and above while maintaining PBILDT margin above 12% on a sustained basis.
- Improvement in liquidity position with WC utilization levels falling below 80% and operating cycle improving to less than 60 days on a consistent basis.
- Overall gearing and TD/GCA improving to less than 1.0x and 2.50x respectively on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the overall gearing beyond 2.0x on a sustained basis.
- Significant decline in the PBILDT margins below 7.5% on a sustained basis.
- Elongation of working capital cycle beyond 100 days on a sustained basis.
- Any significant decline in GCA levels below Rs. 10 crores.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with proven track record of operations.

Mr. Aditya Goyal, is the key promoter and director of MAL. He is a commerce graduate and has completed his MBA from UK, has an experience of over ten years in the industry. He has successfully led the company since its inception. His business and corporate knowledge provides considerable benefit to MAL. Mr. Aditya Goyal is ably assisted by team of experienced professional and technocrats. The promoters, by virtue of long presence in the industry, have gained reputation and developed good relationship with customers and suppliers in the region. Further, the promoters of the company have been extending financial support as and when required in the form of unsecured loans. Total unsecured loans infused by promoter and related parties in MAL stood at Rs. 16.40 crore as on March 31, 2022.

Established relationship with reputed clientele albeit customer and segment concentration

MAL is an established player in the machining and forging segment for auto industry. The company is a tier-1 vendor and the client profile comprises reputed domestic OEM players such as Honda Motorcycle and Scooter India Pvt Ltd, Yamaha motors limited, TVS Motors, etc. However, the customer profile is concentrated as the largest customer's contribution stood at around

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

~73% in FY22. Any adverse movement in the risk profile of these customers could severely impact the operations of the company. Further, the business is also concentrated in the 2-wheeler segment as it contributes around 80% of the revenues in FY22. The risk is however, partially mitigated due to long-standing association with these customers leading to repeat orders every year.

Moderate operational performance
During FY22, the total operating income of the company remained stable at Rs. 238.13 crore in comparison to Rs. 247.57 crore recorded in FY21. This is primarily because of the impact of COVID on the industry resulting in decline in off-take from key customers. The PBILDT margin of the company marginally moderated to 8.54% in FY22 from 8.70% in FY21 mainly due to increase in administrative expenses. During H1FY23, the company has recorded total operating income of Rs. 130 crore along with a PBILDT of Rs. 11.05 crore.

Key rating weaknesses

Leverage capital structure
The capital structure of the company continues to remain leverage on account of high total debt levels since the company's reliance on working capital borrowings is high. As on March 31, 2022 the total debt of the company stood at Rs. 66.71 crore. The overall gearing of the company stood at 1.40x as on March 31, 2022 though improved marginally from 1.45x as on March 31, 2021 due to repayment of loans. The PBILDT interest coverage ratio of the company moderated to 2.14x during FY22 from 3.30x during FY20 due to increase in interest cost of the company. The other debt coverage indicators such as total debt to GCA and total debt to PBILDT stood at 6.54x and 3.28x during FY22 respectively (PY: 4.94x and 3.23x respectively). The company is planning to raise its working capital limits to 32 crore from existing 23 crores as on March 31, 2022. The company is planning to replace its high cost NCD through bank loans which is expected to lower the interest cost going forward. While the lower rate of interest on loan instead of NCD will provide benefit to the bottom line of the company, its debt levels is expected to increase with addition of the enhanced working capital facilities.

Elongated inventory holding and extensive reliance of working capital borrowing
The forging and machining industry is working capital intensive in nature. With the increasing scale of operations, company's reliance on working capital borrowings has increased resulting in high utilization of fund based and non-fund based working capital facilities. The inventory days of the company stood at 147 days in FY22 which increased from 134 days in FY21. The high inventory is due to JIT (Just in Time) model adopted by Japanese Automakers like Honda and Yamaha due to which MAL has to maintain finished goods inventory of atleast 7 days in all their plants. Also, there is transit period from one plant to other plants which increase their inventory days. The overall operating cycle of the company has elongated to 93 days in FY22 from 88 days in FY21. To fund the working capital gap, the company relies on bank borrowings for its working capital requirement and the average utilization of fund-based limits during the past 12 months ending September 2022 remained high at ~95%.

Vulnerability of profitability to adverse fluctuation in price of key raw materials
Raw material consumption forms significant cost factor for the company. Primary raw materials for manufacturing of these products are steel scrap, ferro alloys etc. the prices of which have remained volatile over the past few years. Hence, any adverse movement in raw material price without any corresponding movement in finished good price might affect the profitability of the company. The prices of finished goods generally move in tandem with that of raw materials, however, due to order-based nature of the business there exists a time lag. This exposes the profitability of the company to the risk arising on account of volatility in the raw material prices.

Competitive nature of industry
The demand for forging and machining industry is driven primarily by growth in automobile sector, industrial growth and the need for energy efficient solutions. India is a strong base for manufacturing of these products with presence of more castings and machining units. The automobile and pumps segment accounts for major market for these companies are cyclical in nature. Low entry barriers and a price sensitive end user have led to unorganized sector capturing some share in the market. The profitability margin of the company which are already on the lower side comes under pressure given this competitive nature of operations. Nevertheless, with the company's products being high quality ready to assemble castings which employ various value additives; it remains protected from competition from unorganized sector to some extent

Liquidity: Adequate
The liquidity is supported by an above unity current ratio of 1.29x along with positive cash flow from operations (Rs. 20.72 crores during FY22) as on March 31, 2022. The repayment for FY23 stands at Rs. 3.62 crore as against projected gross cash

accruals of Rs. 11.96 crore, which is more than sufficient to service the obligation. However, the operations of the company are working capital-intensive owing to elongated inventory holding period of 147 days for FY22. The average working capital utilization for last twelve months ending September 2021 is high at around 95%. As on October 30, 2022, the company has a cash and bank balance of Rs. 1.05 crore.

Analytical approach: Standalone

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

About the company

MAL was incorporated in 2005 as Modern Automotives Private Limited and was converted into Public Limited Company in September-2006. MAL is engaged in manufacturing of forged products and machined automotive components for various OEMs (Original Equipment Manufacturers). The product profile of MAL mainly includes crank shafts, connecting rod, gears, bells & tulip. The company commenced its operations in FY07. The manufacturing facilities of the company are located at Mandi Gobindgarh (Punjab), Bengaluru, Gandhi Nagar(operational since November-2015) and Manesar (Haryana; operational since April-2017)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	247.57	238.13	130.00
PBILDT	21.54	20.34	11.05
PAT	7.33	3.82	NA
Overall gearing (times)	1.45	1.40	NA
Interest coverage (times)	3.30	2.16	NA

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review of Modern Automotives Limited as "Not Cooperating" vide its press release dated 7th March 2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (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		-	-	-	23.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	September 2026	3.82	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	Proposed	26.40	CARE BBB-; Stable
Non-fund-based-Short Term		-	-	-	0.75	CARE A3

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based-Short Term	ST	0.75	CARE A3	-	1)CARE A3 (07-Feb-22)	1)CARE A3 (26-Mar-21)	1)CARE A4+; ISSUER NOT COOPERATING* (31-Mar-20) 2)CARE A3 (04-Apr-19)
2	Fund-based - LT-Cash Credit	LT	23.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Feb-22)	1)CARE BBB-; Stable (26-Mar-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (31-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)
3	Fund-based - LT-Term Loan	LT	3.82	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Feb-22)	1)CARE BBB-; Stable (26-Mar-21)	-
4	Fund-based - LT-Term Loan	LT	26.40	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Feb-22)	1)CARE BBB-; Stable (26-Mar-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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	Non-fund-based-Short Term	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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