Shivam Autotech Limited

September 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	372.86	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE D (Single D); Stable outlook assigned
Short Term Bank Facilities	10.00	CARE A4 (A Four)	Revised from CARE D (Single D)
Total Bank Facilities	**382.86 (₹ Three Hundred Eighty-Two Crore and Eighty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Shivam Autotech Limited (SAL) factors in the track record of timely servicing of repayment obligations of financial institutions for more than 3 months. The ratings further derive strength from the experienced promoters with long track record of operations and favourable location of the plant. The ratings also take cognisance of the improvement in operational and financial risk profile during FY22 (refers to the period from April 1 to March 31) and fund infusion by promoters through rights issue. However, the ratings are constrained by the company's leveraged capital structure, weak debt coverage indicators and working capital intensive nature of operations leading to poor liquidity position. The ratings also remain constrained by the revenue concentration risk towards few customers, low bargaining power with customers, susceptibility to volatile raw material prices and cyclical nature of auto sector.

Rating sensitivities

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

- Improvement in capital structure with overall gearing of less than 1.75x
- improvement in total debt/GCA below 10x
- Improvement in profitability leading to adequate cash generation sufficient to meet debt obligations
- Better management of working capital cycle and lower utilisation of working capital limits leading to improvement in liquidity position

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

- Delay in repayment of debt obligations or overutilization of working capital limits for more than 30 days

Detailed description of the key rating drivers

Key rating weaknesses

Leveraged capital structure and weak debt coverage indicators

The company has leveraged capital structure and weak debt coverage indicators. The overall gearing of the company has improved to 2.81x as on March 31, 2022 from 4.34x as on March 31, 2021, however the same continued to remain high. The improvement was largely on account of infusion of equity amounting to Rs. 40 crores by way of rights issue and scheduled repayment of loans along with lower utilisation of working capital.

The debt coverage indicators however, continue to be weak on account of loss-making operations. Total debt/GCA of the company stood at 15.65x for FY22 (PY: 21.57x). The high debt leads to significant repayment obligations at Rs. 73.70 crores for FY23 which are unable to be met by cash accruals of the company. The repayments are hence, expected to be supported by fresh borrowings and support from the promoter in the form of unsecured loans.

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

Weak financial risk profile

During FY22, the company reported stable total operating income of Rs. 469.20 crores (PY: Rs. 489.20 crore). The company has also been able to sustain the PBILDT margin at 15.19% in FY22 as against 16.28% in FY21. Further, on account of lower depreciation and interest cost the company reported decreased loss than previous year. SAL reported a loss of Rs. 16.06 crores during FY22 decreased from Rs. 22.53 crores in FY21.

During Q1FY23, the company reported income of Rs. 118.71 crores with a sustained PBILDT margin of 15.15%

Revenue concentration risk

SAL derives majority of its revenue from single client: Hero MotoCorp Limited (HML). HML contributes around 60% of revenue of SAL. Further, majority of its products manufactured such as gears and shafts find its usage in two wheelers. As a result, SAL is exposed to customer concentration as well as segment concentration risk.

Low bargaining power with customers and susceptibility of margins to volatility in raw material prices

Though there exists limited bargaining power with the customers, since the major customers are auto companies/OEMs, however, the company does have a mechanism wherein any revision in the raw material prices is reset by the OEMs on monthly basis and the change in the raw material prices are accommodated subsequently. The major raw material (Steel) cost accounts for around 50% of total operating income, furthermore, global prices for steel are volatile which exposes SAL to price risk.

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

Key rating strengths

Experienced promoters

SAL is part of the Satyanand Munjal Group (Late Mr Satyanand Munjal was brother of Late Mr BrijMohan Lal Munjal) and was started in 1999 to meet the requirements of HML's component requirements. Subsequently in 2005, SAL was hived off from Munjal Auto Industries Ltd with focus on the forging and machinery division.

The company's Chairman, Mr. Sunil Kant Munjal (son of Late Mr. Brijmohan Lal Munjal) has a vast experience in the two-wheeler industry. Mr. Neeraj Munjal, Managing Director has almost two decades of experience in the auto component sector. Mr. Munjal holds a Diploma in Business Management from Bradford & Ilkley Community College, England, besides a Bachelor's Degree in Commerce.

Location advantage

The company's business profile is strongly linked with HML which is the largest customer of SAL and accounted for approximately 60% of sales. On the other hand, HML is also dependent on SAL for procurement of gears and shafts which accounts for approximately 65-70% of its overall requirement. Thus, the two companies have strong operational linkages. Most of the manufacturing plants of SAL are located in the vicinity of HML's manufacturing plant.

Liquidity: Poor

The liquidity position of the company is poor as total debt level of the company is high owning to significant capex done in the past, leading to increasing repayment obligations. The projected gross cash accruals of around Rs. 50 crore is not sufficient to meet the repayment obligations for FY23 which stands at Rs. 73.70 crore. The repayments are expected to be supported by fresh borrowings or unsecured loan from promoters. Historically, the company has been making repayments by stretching its creditors. The average credit period stood at 69 days in FY22. The company relies heavily on bank funds for its working capital requirements which remains almost fully utilised.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy On Curing Period
Rating Outlook and Credit Watch
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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	489.20	469.20	118.71
PBILDT	79.63	71.26	17.98
PAT	-22.53	-16.06	-3.20
Overall gearing (times)	4.34	2.81	NA
Interest coverage (times)	1.40	1.41	1.48

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

Status of non-cooperation with previous CRA: Not Applicable

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-Term Loan		-	-	30/11/2026	223.03	CARE B; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A4
Fund-based - LT-Cash Credit		-	-	-	90.00	CARE B; Stable
Fund-based - LT-Working Capital Limits		-	-	-	59.83	CARE B; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating History			
		Type	Amount	Rating	Date(s)	Date(s)	Date(s)	Date(s)

	Facilities		Outstanding (₹ crore)		and Rating(s) assigned in 2022-2023	and Rating(s) assigned in 2021-2022	and Rating(s) assigned in 2020-2021	and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	223.03	CARE B; Stable	-	1)CARE D (23-Feb-22)	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)
2	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4	-	1)CARE D (23-Feb-22)	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)
3	Fund-based - LT-Cash Credit	LT	90.00	CARE B; Stable	-	1)CARE D (23-Feb-22)	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)
4	Fund-based - LT-Working Capital Limits	LT	59.83	CARE B; Stable	-	1)CARE D (23-Feb-22)	-	-

*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	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - ST-BG/LC	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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