Caparo Maruti Limited
February 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Bank Facilities – Fund based - LT – Term Loan	59.34 (reduced from Rs.72.12 crore)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Bank Facilities - Non-fund based – ST - BG/LC	8.75	**CARE A3 (A Three)**	**Revised from CARE A2+ (A Two Plus)**
Bank Facilities - Fund-based – ST - Invoice Financing	35.00	**CARE A3 (A Three)**	**Revised from CARE A2+ (A Two Plus)**
Bank Facilities - Fund-based – LT – CC	30.00 (reduced from Rs.40 crore)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Total Facilities	**133.09 (Rupees One hundred thirty three crore and nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings takes into account slowdown in automobile industry resulting in deterioration in the PBILDT margin, losses at net level in FY19, lower than expected achievement of the performance during FY2019 (A) and 9MFY20, worsening of debt protection metrics and liquidity position. Further, the ratings take into account frequent capital expenditure requirements and part funding of the same from short term funds in FY19. The rating continues to be constrained by low bargaining power with its customers and cyclical nature of auto component industry. CARE notes that there is reduction in working capital limits from Rs.75 crore to Rs.55 crore (to be reduced in tranches by third week of March 2020).

However, the rating continue to derive strength from strong business association of CML with Maruti Suzuki India Ltd (MSIL) which has continued its dominance in passenger car segment in India, its promoter's vast experience in auto component business, established track record of operations, increasing although moderate capital structure.

Rating Sensitivities

Positive Factors

- Improvement in PBILDT margin beyond 10% with no net losses along with an increase in total operating income more than Rs.750 crore.
- Working capital utilization below 75%.

Negative Factors

- Decline in PBILDT margins below 4% along with a decline in operating income below Rs.500 crore.
- Increase in Overall gearing beyond 1.5x.
- Prudent management of working capital limits.

Outlook: Negative: The outlook has been revised to negative on account of lower than expected performance in FY19, losses at net level. Going forward, the outlook may be revised to 'Stable' if company is able achieve better profit to meet funds required for capex and debt obligation from long term loans and cash flow from operations.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in auto component business

CML was the first company of the Caparo Group in India and commenced its operations as an automotive components supplier for MSIL. Over the span of more than two decades, the group thorugh various companies has expanded to pan-India presence working mainly for Original Equipment Manufacturers (OEMs) of passenger cars, commercial vehicles and off road vehicles and supplies sheet metal stampings, steel forging, aluminum die casting, tubing, fasteners and tailor welded blanks. MSIL (which holds 25% in the joint venture) is the one of the largest passenger car manufacturer and has a track record of

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

around two decades. MSIL had a net sales of Rs.83,038 crore (PY: Rs.78117.10 crore) with a net profit of Rs.7,494 crore(PY: Rs. 7717.4 crore) in FY19. In FY19, it sold 18,62,449 units of vehicle (PY: 1,779,574 units).

Strong business association with MSIL

CML was incorporated as an exclusive supplier of sheet metal stampings and weldments of specific design to MSIL. CML gets operational support from MSIL for developing the production mechanisms, sharing of risk in terms of raw material fluctuation etc. CML has plants devoted to the production for MSIL which is also reflected by the fact that around 73.59% (PY: 75.28%) of the total operating income of the company in FY19 were made to MSIL. This also results in low off take risk given the strong presence of MSIL in the Indian automobile market.

Moderation in Financial risk profile

Total operating income increased by 3.4% to Rs. 697 crore in FY19. However, the profitability dipped on account of lower production resulting in higher fixed cost per unit and lower profitability, receipt of lower payment under PCD (Price cost deduction wherein there is progressive price deduction y-o-y for the components used in existing models of MSIL) structure. Also, sales of some high profit margin components used in some models of MSIL declined in FY19 resulting in lower profitability. Interest cost rose with increase in borrowings in FY19 and also increase in interest cost. ROCE declined to 0.6% in FY19 from 7.36% in FY18.

The company incurred capex of Rs.24 crore out of which approximately Rs.15 crore was for the purchase of plant and machinery especially press machines and dyes for manufacturing of sheet metal stamp of new model of MSIL and balance is for maintenance capex and purchase of plant and machinery for some changes done in existing model by MSIL. The ongoing capex requirement by CML for new and existing models of MSIL results in current ratio below unity. The funding of capex and repayment of debt obligations of FY19 was primarily done through long term borrowings of Rs.17.61 crore and partly through short term borrowings of Rs.47.84 crore. The fund based limit has to be reduced from Rs.75 crore to Rs.55 crore (CC limit to be reduced from Rs.40 crore to Rs.5 crore) by third week of March in view of downward spiral of automobile industry leading to lower sales.

The company had negative cash flow from operations in FY19. The overall gearing although deteriorated as on March 31, 2019 to 0.86x(PY:0.52x) remained to be moderate. The debt protection metrics worsened in FY19 with decline in Interest coverage ratio and Total debt/GCA to 2.16x(PY: 4.2x) and 9.32x(PY: 2.16x) respectively.

In 9MFY20, the company earned revenue of Rs. 410 crore and losses before tax of Rs.15.57 crore. CARE also notes that company has taken slew of cost saving measures viz. change in raw material size, thickness etc, addition of robotic lines in FY19 to reduce the time in production and decline in manpower cost etc. resulting in improvement in PBILDT in Q3FY20.

Key Rating Weaknesses

Frequent capital expenditure requirements and risks associated with project under implementation

CML has to regularly undergo capital expenditure in response to MSIL's requirement for new models and for variants introduced in the existing models. The company incurred capex of Rs.24 crore out of which approximately Rs.15 crore was for the purchase of plant and machinery mainly press machines and dyes for manufacturing of sheet metal stamp of new model (S-Presso wherein total capex involved was Rs.23 crore out of which Rs.6 crore is done in Fy20) of MSIL and balance is for maintenance capex and purchase of plant and machinery for some changes done in existing model by MSIL. The company incurred capex of Rs.8 crore till Dec 2019 funded primarily through internal accruals and managing its working capital requirements. The primary component of these expansions is robots which improve turnaround time for cutting, stamping significantly while keeping the quality of welding consistent.

Cyclicality associated with the auto industry

The Indian auto component industry is highly fragmented with presence of number of units across the nation catering to various domestic original equipment manufacturers as well as the exports market. The Indian auto component industry has a distinct global competitive advantage in terms of cost and quality. The demand for company's products depends upon growth in automobile industry and is directly related to the cyclicality associated with the auto industry. The growth of the industry in short term may be affected due to rising inflation, higher commodity prices, high interest rates and slowdown in the global markets.

Liquidity: Stretched - Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and modest cash balance. The company had negative cash flow from operations of Rs.6.5 crore in FY19. The company has The payment is collected from MSIL in 30 days. The cash balance as on March 31, 2019 stood at Rs.7.8 crore. Current ratio of CML has been low historically (less than unity) on account of ongoing capex activity over the years. The average fund based working capital utilization in trailing 12 month ended Dec'19 has shown a gradual increasing trend with average of 77% and peak of 99% in April 2019.

Analytical approach: Standalone with operational linkages with MSIL

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Auto Ancillary Companies
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
CML incorporated in 1994 is engaged in the manufacturing of auto components. CML is a joint venture between Caparo India Ltd and MSIL, which hold 74.99% and 25.00% shares respectively. It was incorporated as an exclusive supplier of sheet metal stampings and weldments of specific design to MSIL. CML caters to various small and mid-sized models of MSIL. CML has three manufacturing plants located across India including Gurgaon (Haryana), Bawal (Haryana) and Halol (Gujarat). The facilities are equipped with imported and indigenous press lines, robotic welding lines and painting facilities.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	674.42	697.63
PBILDT	41.16	24.11
PAT	5.39	-6.08
Overall gearing (times)	0.52	0.86
Interest coverage (times)	4.2	2.16

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	Dec 2023	59.34	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB; Negative
Non-fund-based - ST-BG/LC	-	-	-	8.75	CARE A3
Fund-based - ST-Purchse Invoice Financing	-	-	-	35.00	CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	-	-	-	-	-	-	-
2.	Not Define-Short Term	-	-	-	-	-	-	-
3.	Term Loan-Long Term	LT	59.34	CARE BBB; Negative	1)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (20-Jan-17) 2)CARE A+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
								(14-Apr-16)
4.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB; Negative	1)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (20-Jan-17) 2)CARE A+ (14-Apr-16)
5.	Non-fund-based - ST-BG/LC	ST	8.75	CARE A3	1)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)	-	1)CARE A2+ (20-Jan-17) 2)CARE A1 (14-Apr-16)
6.	Fund-based - ST-Purchse Invoice Financing	ST	35.00	CARE A3	1)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)	-	1)CARE A2+ (20-Jan-17) 2)CARE A1 (14-Apr-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
Financial covenants	
I Fund based limit has to be reduced from Rs.75 crore to Rs.55 crore. Out of total fund based limits, cash credit limit to be reduced from Rs.40 crore to Rs.5 crore and MSIL- PO finance is increased from Rs. 35 crore to Rs.50 crore. The total exposure by the bank on the fund based and non fund based facilities is capped by the banker at Rs.120 crore.	As per the discussion with company officials and banker, CML has already reduced the limit by Rs.10 crore to Rs.65 crore by end of December 2019. Out of the balance Rs.25 crore, CML has to permanently reduce the limit by Rs.10 crore (Rs. 5 crore each in month of Feb and third week of March 2020) and covert Rs.15 crore to MSIL - PO finance Limit depending on eligibility.

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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