Caparo Maruti Limited

April 03, 2019

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Bank Facilities – Fund based - LT – Term Loan	72.12	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed
Bank Facilities - Non-fund -based – ST - BG/LC	8.75	**CARE A2+ (A Two Plus)**	Reaffirmed
Bank Facilities - Fund-based – ST - Invoice Financing	35.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Bank Facilities - Fund-based – LT – CC	40.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed
Total Facilities	**155.87 (Rupees One hundred fifty five crore and eighty seven lakh only)**		
Short Term Instruments- Commercial Paper programme*	30.00 (30.00)	**CARE A2+ (A Two Plus)**	Reaffirmed

Details of instruments/facilities in Annexure-1

** carved out of the working capital limits of the company*

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings continues to factor in the 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. The rating also factors in CML's established track record of operations and its moderate financial risk profile characterized by low PBILDT margin offset by comfortable leverage and coverage metrics. The ratings is however, constrained by frequent capital expenditure requirements and risks associated with project under implementation, low bargaining power with its customers and cyclical nature of auto component industry.

Going forward, CML's ability in achieving continuous growth in sales and profitability while managing working capital requirement efficiently, successful implementation of projects within the time and cost estimates shall be the key rating sensitivities.

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 largest passenger car manufacturer and has a track record of around two decades. MSIL has been consistently maintaining a market share of roughly 50% in the passenger vehicle segment in India for last few years.

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 more than 75% of the overall sales of the company in FY18 were made to MSIL. This also results in low off take risk given the strong presence of MSIL in the Indian automobile market.

Moderate financial risk profile

The company has moderate financial risk profile marked by moderate growth in topline, low-yet-stable PBILDT margin, low gearing and comfortable coverage metrics. PBILDT margin continued to remain stable at around 6.10% in FY18 along with GCA of around Rs. 29 crore. Overall gearing was comfortable at 0.52x as on March 31, 2018 (PY: 0.81x). Interest cover and TD/GCA improved to 4.2x and 2.6x respectively in FY18 (PY: 3.6x and 4.0x respectively).

Liquidity profile

Cash flow from operating activities in FY18 had improved to Rs. 58 crore (PY: Rs. 22 crore) due to improved collection. Current ratio of CML has been low historically (i.e less than unity) on account of ongoing capex activity over the years. Net operating cycle remained stable at 13 days in FY18 (PY: 12 days). The average fund based working capital utilization in trailing 12 month ended Dec'18 has shown a gradual increasing trend with average of 35.7% and peak of 87.6% in Dec'18.

Key credit weaknesses

Frequent capital expenditure requirements and risks associated with project under implementation

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

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 is currently executing projects aggregating ~Rs. 12.1 crore pertaining to various models of MSIL. These projects are expected to be operationalized by Q3FY20. The ongoing project of CML exposes the company to the project execution related risks. However, the project risks are to some extent mitigated by the company's track record in terms of execution skills.

Cyclicality associated with the auto industry

The Indian auto component industry is highly fragmented with presence of number of units. 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, but the long-term prospects of the industry still remain favourable.

Analytical approach: Standalone with operational linkages with MSIL

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Factoring Linkages in Ratings

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	642.53	674.42
PBILDT	39.56	41.16
PAT	7.95	5.39
Overall gearing (times)	0.81	0.52
Interest coverage (times)	3.63	4.20

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Refer annexure II

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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.*

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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	-	-	March 2023	72.12	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	8.75	CARE A2+
Fund-based - ST- Invoice Financing	-	-	-	35.00	CARE A2+
Commercial Paper	-	-	< 365 days	30.00	CARE A2+

Annexure-2: Rating History of last four 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	-	-	-	-	-	-	-
2.	Loan-Short Term	-	-	-	-	-	-	-
3.	Term Loan-Long Term	LT	72.12	CARE A-; Stable	1)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (20-Jan-17) 2)CARE A+ (14-Apr-16)	-
4.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	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 A2+	1)CARE A2+ (05-Apr-18)	-	1)CARE A2+ (20-Jan-17) 2)CARE A1 (14-Apr-16)	-
6.	Commercial Paper	ST	30.00	CARE A2+	1)CARE A2+ (05-Apr-18)	-	1)CARE A2+ (20-Jan-17) 2)CARE A1 (14-Apr-16)	-
7.	Fund-based - ST- Invoice Financing	ST	35.00	CARE A2+	1)CARE A2+ (05-Apr-18)	-	1)CARE A2+ (20-Jan-17) 2)CARE A1 (14-Apr-16)	-

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