Caparo Maruti Limited

August 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	89.34	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Short Term Bank Facilities	43.75	CARE A3 (A Three)	Reaffirmed
Total Facilities	**133.09 (Rs. One Hundred Thirty-Three Crore and Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Caparo Maruti Limited takes into account the slow-down in the automobile industry coupled with impact of Covid-19 on the business operations of the company during Q4FY20 & Q1FY21; thereby leading to deterioration in the financial performance during FY20 (unaudited results) (Refers to the period 'April, 2019 to March, 2020').
The ratings of the company 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 and moderate capital structure. However, the ratings are constrained by exposure to fluctuation in raw material prices with limited bargaining power and cyclical nature of auto component industry along with moderation in the financial risk profile marked by decline in the total operating income, moderation in the PBILDT margin and losses at net levels.

Rating Sensitivities

Positive Factors

- Improvement in the PBILDT margin beyond 7% with no losses at net levels with an increase in the total operating income.
- Improvement in current ratio above 1.3x.

Negative Factors

- Decline in the total operating income below Rs.500 crores leading to subsequent moderation in the profitability margins.
- Deterioration in the capital structure leading to an overall gearing of above 1.2x

Outlook: Negative

The outlook of the company continues to remain negative on account of lower than expected performance of the company during FY20 (Provisional) with further increases in the losses at net levels. Going forward, the outlook of the company may be revised to 'Stable' if the company is able to achieve better profitability margins along with better profits at net level in order to meet funds required for capex and payment of debt obligations in case of long term loans.

CML has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 03, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

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 thorough 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, aluminium 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 around two decades.

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

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 90% of the top-line of the company is dependent upon MSIL. This also results in low off take risk given the strong presence of MSIL in the Indian automobile market.

Moderate capital structure

The company has a moderate capital structure characterized by an overall gearing of below 1x for the past three fiscals (FY18-FY20). The overall gearing of the company stood at 0.79x as on March 31, 2020 as against 0.86x as on March 31, 2019. The improvement is on account of repayment of the long term debt along with the lower utilization of the working capital limits.

Key Rating Weaknesses

Deteriorating financial risk profile

The total operating income of the company has reported a decline of 25% y-o-y to Rs.525.28 crores during FY20 as against Rs.697.63 crores during FY19 (A). The decline has been on account of slow-down in the automobile industry coupled with the impact of Covid-19 on the business operations of the company during March, 2020. Consequently the PBILDT margin of the company have declined by around 169 bps and stood at 1.77% during FY20 (PY: 3.46%). Furthermore, the company has reported increase in the losses at net levels to Rs.17.61 crores in FY20 as against losses of Rs.6.08 crores in FY19. The company also reported cash losses amounting to Rs.3.30 crore in FY20.

Debt Coverage Indicators: Owing to lower profitability and losses at PAT and GCA level, the company's debt coverage indicators had deteriorated during FY20. The interest coverage ratio of the company stood at below unity during FY20 (PY: 2.16x).

Q1FY21 Performance: The financial performance of the company further remained subdued during Q1FY21. The same was primarily on account of complete shut-down of its manufacturing plants from April, 2020 to mid of May, 2020 on account of the government's lock-down orders. Also, the company's manufacturing operations started at partial capacity from the mid of May, 2020 on account of the various social distancing and other safety norms in place.

Exposure to fluctuation in raw material prices

The key raw material for CML's product is steel sheets, the prices of which are volatile. The company receives orders from MSIL regularly as per their production schedule and simultaneously it procures raw material from its suppliers. The increase in raw material prices can be passed on to the OEM's but with certain time lag. Hence, to that extent, the profitability remains exposed to the fluctuation in raw material prices. Furthermore, being a moderate sized player in the auto ancillary segment, CML has limited negotiation power vis-à-vis its customer which is a large and well-established OEM.

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.

Industry Outlook

After a gloomy 1st quarter in on-going fiscal, the 2nd quarter began on a good note as July 2020 witnessed positive growth (M-o-M) in production, domestic sales and exports of automobiles. Passenger vehicles, tractors and 2&3 wheelers segments have shown good momentum during the month on a sequential basis, which gives us hope for recovery in the forthcoming future. The consumer demand which could not be met in April, May 2020 and initial days of June 2020 due to the nation-wide and various state lockdowns is expected to be spread across the next 6 months - from July to December 2020. The festive season is a crucial period for automobiles sector, as this is the time of the year when consumers usually make purchases of large ticket items, which are discretionary in nature. Also, employees may be asked to travel to office stations at frequent basis and reducing working from home. This may lead to a preference of commuting in personal vehicles rather than using public mode of transports. Overseas shipments of automobiles have recovered in July 2020, which was dampened during the lockdown period primarily due to low demand from neighboring nations on account of border closures and restrictions on imports of non-essential items. However, macroeconomic numbers continue to disappoint, reaching pre-Covid level is unlikely in FY21. While volume pickup is expected from H2-FY21, full demand recovery is expected only in FY22.

Liquidity: Stretched

Liquidity is marked by tightly matched accruals to the repayment obligations, highly utilized bank limits and modest cash and bank balance. The current ratio of the company has remained low historically (less than unity) on account of ongoing capex activity over the years.

Being auto ancillary player and having relationships with well-established OEMs like MSIL, the company has lower bargaining power and thus has to provide a credit period of around 40 to 45 days to its customers. Also, the company has to maintain adequate levels of inventory for smooth running of its production processes. The company has to maintain the minimum levels of inventory to meet delivery schedules which requires the company to stock up the requisite inventory. Therefore, the average inventory days of the company stood at around 39 days in FY20. However, the operating cycle days of the company are moderate owing to high payable days. The payable days of the company stood at around 65 days in FY20. The average fund based limit utilization for the past twelve months ending July, 2020 stood at 82%.

To tide over the uncertainty attached to the Covid-19 outbreak, CML has approached its lenders for taking the moratorium facility for its debt obligations, which is in line with the Covid-19 regulatory package. As informed to CARE, this is in the anticipation of the said approval from the concerned lenders following the regulatory package by RBI; some of the scheduled repayments were deferred by the company.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short-term Instruments
CARE's methodology for auto ancillary companies
CARE's methodology for 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 75% and 25% 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)	FY19 (A)	FY20 (Prov.)
Total operating income	697.63	525.28
PBILDT	24.11	9.29
PAT	(6.08)	(17.61)
Overall gearing (times)	0.86	0.79
Interest coverage (times)	2.16	0.71

A: Audited; Prov.: Provisional

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-Purchase 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	59.34	CARE BBB-; Negative	-	1)CARE BBB; Negative (14-Feb-20) 2)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (05-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (14-Feb-20) 2)CARE A-; Stable (03-Apr-19)	1)CARE A-; Stable (05-Apr-18)	-
3.	Non-fund-based - ST-BG/LC	ST	8.75	CARE A3	-	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)	-
4.	Commercial Paper	ST	-	-	-	1)Withdrawn (07-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)	-
5.	Fund-based - ST-Purchse Invoice Financing	ST	35.00	CARE A3	-	1)CARE A3 (14-Feb-20) 2)CARE A2+ (03-Apr-19)	1)CARE A2+ (05-Apr-18)	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Purchase Invoice Financing	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name – Achin Nirwani
Contact no.- 011-45333233
Email ID- achin.nirwani@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no. : 011-45333200/9811745677
Email ID : swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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