

## Federal Mogul Goetze (India) Limited

March 31, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	224.50	<b>CARE A+; Negative</b> (Single A Plus; Outlook: Negative)	<b>Ratings reaffirmed;</b> <b>Outlook revised from</b> <b>'Stable' to 'Negative'</b>
Short term Bank Facilities	68.00	<b>CARE A1+</b> (A One Plus)	<b>Ratings reaffirmed</b>
<b>Total</b>	<b>292.50</b> <b>(Rupees Two hundred ninety-two crore and fifty lakhs only)</b>		

*Details of instruments/facilities in Annexure-I*

### Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of Federal Mogul Goetze (India) Limited (FMGI) continues to take into account the financial risk profile in FY19 and 9MFY20 marked by healthy solvency and strong coverage indicators. The ratings continue to derive strength from the dominant position and long-track of operations of FMGI in the domestic piston and piston rings business, demonstrated support of the Federal-Mogul group in terms of access to global management & technology. The ratings, however, remain constrained by susceptibility of the profitability margins to raw material price fluctuations and the cyclical nature of auto sector.

### Rating Sensitivities

#### Positive Factors

- Increase in TOI by more than 20% while the PBILDT margin exceeds over 18% on sustained basis
- Gross cash accruals of more than 150 cr on sustained basis

#### Negative Factors

- Decline in PBILDT margin below 10%
- Overall gearing of more than 0.7x and working capital utilization of more than 80%

### Outlook Revised to Negative

The revision in outlook reflects CARE's belief that the profitability margins of RAIL would remain low in the medium term on back of certain fixed cost associated and muted performance of auto sector in domestic market. Also, recovery could take longer if the economic slowdown continues with the outbreak of COVID-19.

### Detailed description of the key rating drivers

#### Key Rating Strengths:

#### **Strong parentage, viz, Federal-Mogul Group (FMG) and dominant market position**

FMGI continues to have an established market position in the domestic piston and piston rings business. This is further strengthened by continuous support received by the company from the parent group, FMG in the form of technical expertise and financial assistance.

FMGI is the 2<sup>nd</sup> largest player with more than 35% market share in the organized market of pistons/piston rings in India. Apart from FMGI, Federal Mogul Group has presence in India through JV with ANAND group (viz. ANAND I-Power Limited) which is into manufacturing of piston rings, plate castings & precision component plates with focus exports.

#### **Reputed clientele and diversified revenue stream marked by OEMs and aftermarket**

FMGI's key customers include leading automobile players in India viz. Mahindra & Mahindra Ltd, Bajaj Auto Limited, Maruti Suzuki India Limited, Tata Motors Limited, Hero Motocorp Ltd and Ashok Leyland Limited providing a well-diversified customer base. In addition to OEMs, Group has presence in replacement market. Top 5 Customers contributed 34% of net sales in FY19 (PY: 36%).

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

The company has presence across segments including PV (35% of FY19 sales), 2 & 3-wheelers (24% of sales in FY19), Tractors/Industrial vehicles (~15% of FY19 sales), CV (11%), replacement market (15%). In the after-market segment, FMGI has 50% share in CV; rest PV and 2-3 wheelers.

#### **Comfortable financial profile marked by healthy solvency and strong coverage indicators**

During FY19, FMGI's total operating income remained stable at Rs 1339.46 cr primarily on account of increase in domestic sales. Exports of the company declined from Rs. 145.70 cr in FY18 to Rs. 115.48 cr in FY19 primarily due to shifting of a warehouse in North America.

The PBILDT margin remained stable at 15.83% (PY: 16.16%). PAT margin also remained stable in line with PBILDT margin at 6.16% (PY: 6.26%).

Capital structure remains strong with overall gearing of 0.09x as on 31-Mar-19 (PY: 0.11x). Coverage ratios remained comfortable with interest coverage at 22.43x in FY19 (PY: 19.57x) & debt to GCA at 0.40x (PY: 0.43x).

#### **Key Rating Weaknesses**

##### **Susceptibility to raw material price fluctuation**

Aluminum, steel and steel alloys are the key raw materials (approx. 34% of raw material cost in FY19) used for manufacturing of piston rings. Moreover, other metals such as iron, copper, etc. are also consumed for manufacturing piston rings. The company procures RM from National Aluminium Company Limited, G. S. Alloys, Hogan India Pvt Ltd etc. The metal demand, especially aluminum, copper and steel, is cyclical with prices driven by demand and supply conditions in the market coupled with strong linkage to the global market. For 75% of OEMs (comprising 91% of total sales), the company gets to fully pass-on the increase/decrease in raw material rates which are procured from OEM-approved suppliers. However, for after market segment, the company remains exposed to RM price risk.

##### **Cyclical nature of the automotive industry**

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to Tier II and Tier III suppliers.

#### **Liquidity: Strong**

FMGI's current ratio stood is comfortable and stood at 2.09x as on Mar 31, 2019 (PY: 1.79x). The company provides credit period of upto 60 days to customers and payment to suppliers are made within 60 days. The company maintains inventory of close to 2 months owing to large product range and sizes. The operating cycle stood at 63 days in FY19 (PY: 52 days). The average CC utilization is negligible and stood at 1% during period 12m period ending December 2019.

#### **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 \(Non-Financial Sector\)](#)
- [CARE's methodology for Factoring Linkages in Ratings](#)

#### **About the Company**

Federal-Mogul Goetze (India) Ltd (FMGI) was established in 1954 as a joint venture with Goetze-Werke of Germany. FMGI is engaged in the manufacturing of auto components, primarily focusing on pistons and piston rings

<b>Brief Financials (Rs. crore)</b>	<b>FY18</b>	<b>FY19</b>
Total operating income	1,325	1,339
PBILDT	214	212
PAT	83	83
Overall gearing (times)	0.11	0.09
Interest coverage (times)	19.57	22.43

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
Fund-based - LT-Working Capital Limits	-	-	-	224.50	CARE A+; Negative
Non-fund-based-Short Term	-	-	-	68.00	CARE A1+

#### 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.	Fund-based - LT-Working Capital Limits	LT	224.50	CARE A+; Negative	-	1)CARE A+; Stable (06-Mar-19) 2)CARE A+ (Under Credit watch with Developing Implications) (19-Apr-18)	1)CARE A+; Stable (05-Mar-18) 2)CARE A; Stable (10-Apr-17)	-
2.	Non-fund-based-Short Term	ST	68.00	CARE A1+	-	1)CARE A1+ (06-Mar-19) 2)CARE A1+ (Under Credit watch with Developing Implications) (19-Apr-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1 (10-Apr-17)	-
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (05-Mar-18) 2)CARE A; Stable (10-Apr-17)	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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