Federal-Mogul Goetze (India) Ltd

March 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	243.50	**CARE A+; Stable (Single A Plus; Stable)**	**Revised from CARE A; Stable (Single A; Stable)**
Short term Bank Facilities	69.50	**CARE A1+ (A One Plus)**	**Revised from A1 (A One)**
Total	**313.00 (Rupees Three hundred and Thirteen crore only)**		
Long term Bank Facilities	Nil (Decreased from Rs 42.20 crore)	-	**Withdrawn**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the bank facilities of FMGI takes into account the comfortable financial risk profile marked by improvement in profitability, 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 fluctuation and cyclical nature of auto sector. Going forward, the profitable scale-up of operations, impact of any major capex and its corresponding funding mix on the credit profile and continued support by Federal-Mogul group shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable financial profile marked by improvement in profitability, healthy solvency and strong coverage indicators

In FY17, PBILDT margin of the company improved to 15.02% (PY: 11.96%) on account of lower material cost in FY17 of 42.19% as against 46.43% in FY16. PAT margin also improved in line with PBILDT margin to 5.42% (PY: 3.24%). Turnover of the company remained stagnant primarily due to decline in sales from replacement market, trading and exports. Total debt decreased to Rs.115 cr as on 31-Mar-17 (PY: Rs.201 cr) mainly on account of repayment of term loans and decline in working capital utilization. Capital structure remains strong with overall gearing of 0.21x as on 31-Mar-17 (PY: 0.41x). Coverage ratios remained comfortable with interest coverage at 10.04x in FY17 (PY: 5.67x) & debt to GCA at 0.78x. Liquidity profile stood comfortable with current ratio of 1.65x as on March 31, 2017 (PY: 1.25x). The average CC utilization stood at 9% during period 12m period ending December 2017.

During 9MFY18 also, PBILDT margin of the company increased to 16.09% (9M FY17: 15.79%) and PAT margin increased to 6.11% (9M FY17: 5.30%) however the company has recorded stagnant operating income to Rs.1,031 cr (9M FY17: Rs.1,044 cr).

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

FMGI continues to have 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 had outstanding ICD of Rs. 47 crore as on March 31, 2017 (PY: Rs. 42 crore) from group companies. During CY16 (Jan-Dec), Federal-Mogul Holdings LLC earned operating income of USD 7,434 million (~Rs.50,000 cr). Net worth as on 31-Dec-16 stood at USD 880 million (~Rs.5,980 cr).

FMGI is the 2nd largest player with approx. 39% 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

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

FMGI's key customers include leading automobile players in India with a well-diversified customer base. Furthermore, the company has presence across the entire automobile sector with sound mix of OEM (~69%) and after-market sales (~31%). Within OEM segment, the company is diversified in 2-3 wheelers (contributing 18% of sales in FY17), PV (27%), CV (8%) and exports 16%.

Key Rating Weaknesses

Susceptibility to raw material price fluctuation

Aluminum, steel and steel alloys are the key raw materials (approx. 40% of raw material cost in FY17) used for manufacturing of piston rings. Moreover, other metals such as iron, copper, etc. are also consumed for manufacturing piston rings. The imports declined in FY17 to ~21% (PY: 22%) of total raw material cost with localization of rings which were imported earlier from Germany. 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 70% 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 Industry

The market size for auto component sector increased by 14.3% to $ 43.5 billion (Rs.2.92 lac crore) in FY17 from $ 39.0 billion (Rs.2.55 lac crore) in FY16 (Source: Automotive Component Manufacturers Association of India). The automobile industry is cyclical in nature and automotive component suppliers' sales are linked to sales of OEMs. In terms of vehicle segment, PV segment is the largest customer for domestic auto-ancillary industry. Many global OEMs have made India their component sourcing hub, while domestic companies are acquiring global companies to expand markets, access to latest technology and diversify revenue stream. Furthermore, the after-market segment is marked by presence of large unorganized players providing cheaper parts and supplies giving competition to players like FMGI.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for manufacturing companies
CARE's methodology for auto ancillary companies
CARE's methodology for financial ratios (Non-Financial Sector)

About the Company

Federal-Mogul Goetze (India) Ltd (FMGI) was established in 1954 as a joint venture with Goetze-Werke of Germany. In 2006, the majority of shareholding of FMGI was acquired by Federal-Mogul Corporation (FMC) USA through its two subsidiaries viz. Federal-Mogul Holdings Limited (60.05% stake as on Dec 31, 2017) and Federal-Mogul Vemogensuverwaltungs GmbH (~14.93% stake as on Dec 31, 2017). FMC is one of the leading worldwide manufacturers of automotive components. FMGI is engaged in the manufacturing of auto components, primarily focusing on pistons and piston rings with approx. 39% market share. It markets pistons and piston rings under the brand name 'Goetze', while the valve train components are sold under the brand name 'BricoGoetze'. The company has presence across segments viz. two-wheelers (2W), four-wheelers (4W), commercial vehicle (CV), replacement market and exports.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,348	1,321
PBILDT	161	198
PAT	44	72
Overall gearing (times)	0.41	0.21
Interest coverage (times)	5.67	10.04

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

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.*

Analyst Contact:
Name: Manek Narang
Tel: 011- 45333233
Mobile: 9810596225
Email: manek.narang.careratings.com

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

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	-	-	-	243.50	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	69.50	CARE A1+
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Limits	LT	243.50	CARE A+; Stable	1)CARE A; Stable (10-Apr-17)	-	1)CARE A- (24-Feb-16) 2)CARE A- (22-Apr-15)	1)CARE BBB+ (18-Apr-14)
2.	Non-fund-based-Short Term	ST	69.50	CARE A1+	1)CARE A1 (10-Apr-17)	-	1)CARE A1 (24-Feb-16) 2)CARE A1 (22-Apr-15)	1)CARE A2+ (18-Apr-14)
3.	Fund-based - LT-Term Loan	LT	-	-	1)CARE A; Stable (10-Apr-17)	-	1)CARE A- (24-Feb-16) 2)CARE A- (22-Apr-15)	1)CARE BBB+ (18-Apr-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691