

Federal-Mogul Goetze (India) Ltd

March 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	243.50	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Rating removed from credit watch
Short term Bank Facilities	69.50	CARE A1+ (A One Plus)	Reaffirmed; Rating removed from credit watch
Total	313.00 (Rupees Three hundred and Thirteen crore only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of FMGI continues to take into account the financial risk profile in FY18 and 9MFY19 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.

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 key rating sensitivities.

Stable: The rating outlook has been revised to "Stable" following a demonstrated track record of continuing operational and management support from Federal Mogul LLC (the global holding company of FMGI), following its take-over by Tenneco Inc.

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 2nd largest player with approx. 36% 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.

Successful acquisition of global holding company, Federal Mogul LLC by Tenneco Inc.

Tenneco Inc., headquartered in Lake Forest, Illinois, USA acquired the global holding company Federal Mogul LLC in October 2018. FMGI had outstanding ICD of Rs. 66.40 crore as on March 31, 2018 (PY: Rs. 47.15 crore) from group companies.

Reputed clientele and diversified revenue stream marked by OEMs and aftermarket

FMGI's key customers include leading automobile players in India like Mahindra & Mahindra, Tata Motors Limited, Maruti Suzuki India Limited etc. Furthermore, the company has presence across the entire automobile sector with a sound mix of OEM and after-market sales. Within the OEM segment, the company is diversified in PV (contributing 35% of sales in FY18), 2-3 wheelers (23%), Tractors (22%), CV (14%) and replacement (6%).

Financial profile marked by healthy solvency and strong coverage indicators

During FY18, FMGI's total operating income registered y-o-y of ~4% to Rs 1322.68 cr primarily on account of increase in domestic sales. During FY18, PBILDT margin stood at 15.90% (PY: 15.84%). With low interest cost due to repayment of term debt, PAT margin also improved to 6.24% (PY: 5.78%). Total debt decreased significantly to Rs.68.13 cr as on 31-Mar-18 (PY: Rs.115.93 cr) mainly on account of repayment of term loans and decline in working capital utilization. Capital structure remains strong with overall gearing of 0.11x as on 31-Mar-18. Coverage ratios remained comfortable with interest coverage at 20.62x in FY18 (PY: 10.13x) & debt to GCA at 0.43x (PY: 0.76x). During 9MFY19, total operating income witnessed y-o-y growth of 3% to Rs. 1024.28 cr (PY: Rs.997.74 cr) despite weak industry scenario.

Liquidity: Liquidity profile was satisfactory with a current ratio of 1.82x as on March 31, 2018 (PY: 1.42x). The average CC utilization stood at 3% during period 12m period ending December 2018.

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

Key Rating Weaknesses

Susceptibility to raw material price fluctuations

Aluminum, steel and steel alloys are the key raw materials (approx. 40% of raw material cost in FY18) used for manufacturing of piston rings. Moreover, other metals such as iron, copper, etc. are also consumed for manufacturing piston rings. 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 the 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.

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, 2018) and Federal-Mogul Vermögensverwaltungs GmbH (~14.93% stake as on Dec 31, 2018). Tenneco Inc., headquartered in Lake Forest, Illinois, USA acquired the global holding company Federal Mogul LLC in October 2018.

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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1275	1323
PBILDT	202	210
PAT	74	83
Overall gearing (times)	0.21	0.11
Interest coverage (times)	10.13	20.62

A: Audited

Status of non-cooperation with previous CRA: NA

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.

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About CARE Ratings:

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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
Fund-based - LT-Working Capital Limits	-	-	-	243.50	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	69.50	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 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.	Fund-based - LT-Working Capital Limits	LT	243.50	CARE A+; Stable	1)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)	-	1)CARE A- (24-Feb-16) 2)CARE A- (22-Apr-15)
2.	Non-fund-based-Short Term	ST	69.50	CARE A1+	1)CARE A1+ (Under Credit watch with Developing Implications) (19-Apr-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1 (10-Apr-17)	-	1)CARE A1 (24-Feb-16) 2)CARE A1 (22-Apr-15)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Mar-18) 2)CARE A; Stable (10-Apr-17)	-	1)CARE A- (24-Feb-16) 2)CARE A- (22-Apr-15)

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