Federal-Mogul Goetze (India) Ltd

April 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Facilities	285.70 (decreased from 293.50)	**CARE A (Stable) (Single A; Stable)**	**Revised from CARE A- (Single A Minus)**
Short-term Facilities	62.50	**CARE A1 (A One)**	**Reaffirmed**
Total	**355.20 (Rupees Three hundred and Fifty Five crore and Twenty lacs only)**		

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 improvement in financial risk profile marked by consistent growth in revenue as well as profitability margins and solvency ratios. 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

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

FMGI continues to have support from the parent group FMG in the form of technical expertise and financial assistance. FMGI had outstanding inter-corporate deposits (ICDs) of Rs.42 crore as on March 31, 2016 (PY: Rs.88 crore) from group companies. The ultimate holding company Federal-Mogul Holdings LLC earned operating income of USD 7,434 million (~Rs.50,000 crore) during January to December 2016. The net worth as on December 2016 stood at USD 880 million (~Rs.5,980 crore).

FMGI is the leader 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.

Reputed clientele and diversified revenue stream marked by OEMs and aftermarket

FMGI's key clientele includes 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 (~66%) and after-market sales (~34%). Within OEM segment, the company is diversified in 2W and 3 W (contributing 16% of sales in FY16), PV (28%), CV (7%) and exports 15%. In the after-market segment, FMGI has 50% share in CV; rest shared by 2W, 3W and PV.

Improved operational and financial performance in FY16

FMGI achieved 8.23% growth in operating income in FY16, on account of 10% growth in domestic sales (FY16: Rs.1,260 crore) as well as exports (Rs.167 crore). The PBILDT margin improved to 11.96% (PY: 10.14%) on account of lower

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

manufacturing costs owing to economies of scale as well as cost-cutting measures taken by the company. PAT margin also improved in line with PBILDT margin to 3.24% (PY: 2%).

The capital structure remained strong with overall gearing of 0.41x as on March 31, 2016 (PY: 0.50x). Higher cash accruals led to improvement in coverage ratios as well, with interest coverage increasing to 5.67x in FY16 (PY: 4.27x) and total debt to GCA to 1.59x (PY: 2.58x).

The liquidity profile stood satisfactory with current ratio of 1.19x as on March 31, 2016 (PY: 1.14x) coupled with average CC utilization of 32% during period 12m period ending November 30, 2016.

During 9MFY17, the company achieved 5.9% growth in units sold to 12.44 lacs (PY: 11.75 lacs). Despite decline in the operating income by 4.52% to Rs.959 crore in said period (PY: Rs.1,019 crore), the company achieved improvement in the PBILDT margin to 14.68% (PY: 11.67%) as well as PAT margin to 4.98% (PY: 3.03%).

Key Rating Weaknesses

Susceptibility to raw material price fluctuation

Aluminum, steel and steel alloys are the key raw materials (approx. 36% of raw material cost in FY16) used for manufacturing of piston rings. Also, other metals such as iron, copper, etc, are also consumed for manufacturing piston rings. In FY16, the company saw decline in imports to ~22% of total raw material cost (PY: 25%) on account of localized manufacturing of rings in India which were imported.

Furthermore, the demand of metal is cyclical with prices driven by demand and supply conditions in the domestic economy coupled with strong linkage to the global market. As per the arrangement with most OEMs, the company gets to fully pass-on any increase or decrease in raw material prices, which are procured from OEM-approved suppliers. However, for the after-market segment comprising 34% of operating income in FY16, the company remains exposed to raw material price risk.

Cyclical industry

The market size for auto component sector increased by 8.8% to $ 39 billion (Rs.2.56 lac crore) in FY16 from $38.5 billion in FY15 (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 (share 45% in FY16) 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

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, when the name of the company was changed to 'Federal-Mogul Goetze (India) Ltd'. FMC is a global company and 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. It markets the 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 all segments viz. two-wheelers (2W), four-wheelers (4W), commercial vehicle (CV), replacement market and exports.
During FY16 (Audited; refers to the period April 01 to March 31), FMGI reported a PAT of Rs.44 crore on the total income of Rs.1,348 crore. During 9MFY17 (unaudited; refers to period from April 1 to September 30), FMGI's total income was Rs.973 crore (PY: Rs.1,019 crore) and it posted PAT of Rs.49 crore (PY: Rs.31 crore).

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.*

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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
Fund-based - LT-Term Loan	-	-	Q4FY20	42.20	CARE A; Stable

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- (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 (24-Feb-16) 2)CARE A1 (22-Apr-15)	1)CARE A2+ (18-Apr-14)
3.	Fund-based - LT-Term Loan	LT	42.20	CARE A; Stable	-	-	1)CARE A- (24-Feb-16) 2)CARE A- (22-Apr-15)	1)CARE BBB+ (18-Apr-14)

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