

Federal-Mogul Goetze (India) Ltd

April 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	243.50	CARE A+ (Single A Plus)	Placed on credit watch with developing implications
Short term Bank Facilities	69.50	CARE A1+ (A One Plus)	Placed on credit watch with developing implications
Total	313.00 (Rupees Three hundred and Thirteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Federal-Mogul Goetze (India) Ltd are put under Credit watch with developing implications. CARE Ratings notes that Tenneco Inc. has proposed to acquire the ultimate global holding company of FMGI i.e. Federal Mogul LLC. CARE Ratings is monitoring further developments with respect to this event and would take up review of rating when more clarity emerges in this matter.

The ratings continue to take 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).

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

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

expertise and financial assistance. FMGI had outstanding ICD of Rs. 47 crore as on March 31, 2017 (PY: Rs. 42 crore) from group companies.

FMGI is the 2nd largest player with approx. 39% market share in the organized market of pistons/piston rings in India.

Reputed clientele and diversified revenue stream marked by OEMs and aftermarket

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 US\$ 43.5 billion (Rs.2.92 lakh crore) in FY17 from US\$ 39.0 billion (Rs.2.55 lakh 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 Vermögensverwaltungs 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.

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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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

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+ (Under Credit watch with Developing Implications)
Non-fund-based-Short Term	-	-	-	69.50	CARE A1+ (Under Credit watch with Developing Implications)

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+ (Under Credit watch with Developing Implications)	-	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+ (Under Credit watch with Developing Implications)	-	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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