Mahabal Auto Ancillaries Private Limited

July 03, 2020

Ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	-	-	**Withdrawal**
Long term Bank Facilities	31.48 (Enhanced from Rs.5 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	0.02	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total	**31.50 (Rs. Thirty-One Crore and Fifty Lakhs only)**		

*Details of instruments/facilities in Annexure-1*Note:

The rating assigned to the term loan facility has been withdrawn on account of complete repayment of the facility as per loan closure letter dated June 4, 2020

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Mahabal Auto Ancillaries Private Limited (MAAPL) takes into account strength from the long-standing experience of the promoters in auto ancillary industry, established relations with the customers and strategic location of its plants. Furthermore the rating also takes a note of the growth in revenues, adequate liquidity position marked by low utilization of fund based limit and comfortable debt protection matrices.

The rating strengths, however, continue to remain constrained by its high customer concentration risk, modest though growing scale of operations, presence in highly competitive, cyclical & fragmented auto ancillary industry and dependence on inherently cyclical nature of automobile industry. The ratings further take note of the looming Covid-19 crisis and its impact on the macro-economy environment and the automobile sector at large. Further, CARE takes note of the moderation of financial performance in FY20.

Rating Sensitivities

Positive Factor

- Substantial improvement in scale of operation of the company above Rs.450 – 500 Cr
- Diversification in its revenue stream from new customer thereby reducing risk on sustainable basis

Negative Factor

- Continued slowdown of demand from end user industry leading to sustained deterioration in TOI and profitability.
- Any un-envisaged debt funding, thereby weakening of capital structure

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of the promoter, with over two decades of experience in manufacturing of auto ancillary products and location of plants nearby customers:

MAAPL is promoted by Mr. Shrikant Mahabal, Mr. Hemant Mahabal and Mr. Nishikant Mahabal. The promoters have an experience of more than two decades in the auto ancillary industry. They are further supported by qualified management with substantial experience in their respective fields. Long experience of promoters has helped them in gaining adequate acumen about the auto ancillary industry.

MAAPL operates through 3 plants, located at Miraj (Maharashtra), Pantnagar (Uttarakhand) and Dharwad (Karnataka). The plants are situated in close proximity of major customer viz. Tata Motors Limited (TML: rated CARE AA-; Negative/CARE A1+ as on August 19, 2019).

Financial risk profile marked by growth in operating income, improved operating profit margin during FY19

During, FY18 MAAPL has completed a capex at its Pantnagar (Uttarakhand) plant for manufacturing of crankshaft. Commercialization of the said capex has resulted in improvement in total operating income and profitability during FY19. The total operating income grew by 15% and stood at Rs.246.68 crore in FY19 (P.Y. Rs.214.07 crore). Furthermore, the PBILDT

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

margin improved and stood at 11.76% during FY19 as against 10.20% during FY18. However, with increase in depreciation due to the capex undertaken, PAT margin reduced to 4.41% during FY19 as compare to 4.61% during FY18.
The company has registered a turnover of ~Rs.180 crore in FY20. The decline in revenue was mainly due to the slowdown in auto sector and partially due to the outbreak of COVID-19 lexading to nationwide lockdown. Further, the company has re-started its operations in a phase-wise manner and is currently operating at 50% of capacity. However, the demand from end user industry is sluggish and recovery will be dependent on overall improvement in the auto sector. Maintaining PBILDT margin amidst the slowdown will be crucial and will be a key rating monitorable.

Comfortable capital structure and debt coverage indicators
With lower utilization of working capital limits and repayment of term loans, the overall gearing improved and stood at 0.28x as on 31st March 2019 compared to 0.34x as on 31st March 2018. Debt coverage indicators improved as reflected by the TDGCA and interest coverage of 1.30x and 7.34x respectively at the end of FY19 as compare to 1.81x and 4.74x respectively as at the end of FY18. The company has availed a new term loan of Rs.5.25 crore in FY20 for enhancement in the installed capacity of machining division. Going forward any further un-envisaged addition in the debt resulting in sustained deterioration in the capital structure will be a key rating monitorable.

Key Rating Weaknesses

Customer concentration risk
MAAPL attracts customer concentration risk as the top two customers i.e. TML and John Deere together contributes to more than ~80% of total operating income. The exposure of MAAPL to other customers like, Mahabal Metals Private Limited (MMPL: rated CARE A; Negative/CARE A2+ as on January 20, 2020), Rane Axle & Pressing, Involute Technologies Private Limited (ITPL: rated CARE A-; Stable/ CARE A2+ as on April 07, 2020), Mahindra & Mahindra Manufacturer Limited, was around 14% of total revenue during FY19. The concentration of revenue gives rise to the risk of decline in revenue due to slowdown in demand from any one. The ability of company to diversify its revenues will be a key rating monitorable.

Competition from organized and unorganized players
MAAPL operates in an industry which comprises of several players in the organized and unorganized sector resulting in high degree of fragmentation. The casting industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. However, it is challenging for new entrants to achieve preferred vendor status with OEMs.

Slowdown in the end user auto industry
The auto components industry is ancillary to the automobile industry. MAAPL is exposed to cyclicality associated within the automobile segment, demand swings in any of the auto segments have an impact on the auto ancillary demand which is impacted by general economic or industry conditions, including seasonal trends in the automobile manufacturing sector, volatile fuel prices, rising employee expenses, new stringent emission norms, BS VI adoption and challenges in maintaining amicable labor relations as well as evolving regulatory requirements, government initiatives, trade agreements and other factors. Capex on technology advancement to improve product capabilities may continue to remain high, which will exert pressure on companies' cash flows.

Liquidity: Adequate
MAAPL has been able to manage its working capital requirements efficiently resulting in lower utilization of working capital borrowings. Average CC Utilization remained low at ~1% during the past twelve months ended February 2020. Further, as on May 31, 2020, the company has a credit balance in cash credit facility. Moreover, the liquidity position is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligation of Rs.5.84 crore for FY21 and moderate cash balance of Rs.3.63 crores as on March 31, 2019. During FY19 MAAPL has generated gross cash accruals of Rs.21.26 crores. Further, the company has not availed moratorium and is making payments as per the schedule. Moreover, utilization of fund based limits continues to be on lower side as seen from average fund based limit utilization of ~1% for the last twelve months ending May 31, 2020. The ability of company to maintain its liquidity position with timely receipt from key customers will remain a monitorable.

Industry Outlook
On the back of slowdown in auto segment and weak near term outlook, growth challenges remain critical for auto component Industry. The auto component industry is highly competitive with large number of players in the market; arising the risk of losing business to competitor. Further, due to the outbreak of COVID – 19 and subsequent lockdown the auto industry is underperforming and is not able to utilize its full capacity. Moreover, the demand is expected to be sluggish in near term.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Auto Ancillary Companies
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1990, Mahabal Auto Ancillaries Private Limited is engaged in the procurement of raw forgings and their conversion into various machined and heat treated forged and machined auto components mainly for tractors and LCVs. The company has four manufacturing facilities located at Miraj (Maharashtra), Pantanagar (Uttarakhand), and Dharwad (Karnataka) and is a Tier I supplier to various Original Equipment Manufacturers (OEM) like Tata Motors and John Deere.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	214.07	246.68
PBILDT	21.84	29.00
PAT	9.88	10.87
Overall gearing (times)	0.34	0.28
Interest coverage (times)	7.34	7.34

A: Audited

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Status of non-cooperation with previous CRA: None

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-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.02	CARE A3+
Fund-based - LT-Term Loan	-	-	2024	26.48	CARE BBB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB+; Stable (03-Apr-20)	1)CARE BBB+; Stable (01-Apr-19)	1)CARE BBB; Positive (02-Apr-18)	1)CARE BBB; Stable (02-May-17)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-20)	1)CARE BBB+; Stable (01-Apr-19)	1)CARE BBB; Positive (02-Apr-18)	1)CARE BBB; Stable (02-May-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	0.02	CARE A3+	1)CARE A3+ (03-Apr-20)	1)CARE A3+ (01-Apr-19)	1)CARE A3+ (02-Apr-18)	1)CARE A3+ (02-May-17)
4.	Fund-based - LT-Term Loan	LT	26.48	CARE BBB+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Particulars	Penalty
Financial covenants	
External Debt to EBIDTA not less than FY20 – 3.0x	If not satisfied penal interest @ 2% will be applied.
External Debt to TNW not less than FY20 – 2.0x	If not satisfied penal interest @ 2% will be applied.
Non-Financial covenants	
Annual Audited accounts to be submitted within 90 days from the end of financial year.	Bank would levy penal interest @ 2% for non-submission on or before due date.
Monthly stock statement	Bank would levy penal interest @ 2% for non-submission month on month basis.

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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