Shivam Autotech Limited

February 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term facilities	517.93 (enhanced from Rs.483.23 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Short-term facilities	28.00 (reduced from Rs.29 crore)	**CARE A2+ (A Two Plus)**	Reaffirmed
Total facilities	**545.93 (Rupees Five Hundred and Forty Five crore and Ninty Three lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Shivam Autotech Limited (SAL) continue to derive strength from the experienced and resourceful promoters, favorable location of plants, strong operational linkages and long-standing relationship with its major customer. The ratings also take cognizance of significant increase in revenues and improvement in profitability at PBILDT levels, though with a loss at net levels

The ratings, however, remain constrained by moderated solvency and debt coverage indicators on account of debt funded capex in the past. The ratings are further constrained by revenue concentration risk, working capital intensive nature of operations and cyclical nature of auto sector.

Going forward, SAL's ability to ramping-up production at the new plants along with improvement in profitability margins as well as continued support and linkage with Hero Motors Group shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

SAL is part of the Satyanand Munjal Group (Late Mr Satyanand Munjal was brother of Late Mr BrijMohan Lall Munjal) and was started in 1999 to meet the requirements of Hero MotoCorp Limited's (HML) component requirements. Subsequently in 2005, SAL was hived-off from Munjal Auto Industries Ltd with focus on forging and machinery division. The company's Chairman, Mr Sunil Kant Munjal (son of Late Mr Brijmohan Lall Munjal) has a vast experience in the 2-W industry. He was also previously the Joint Managing Director of HML. The promoters i.e. Munjal family holds 74.80% stake in SAL through Dayanand Munjal Investments Pvt Ltd as on Sep 30, 2018. Mr. Yogesh Munjal (MD of Munjal Showa Ltd and son of Late Mr Satyanand Munjal) controls Dayanand Munjal Investments Pvt Ltd. Dayanand Munjal Investments Pvt Ltd owns 39% stake in Munjal Showa Ltd.

Mr Neeraj Munjal (son of Mr.Yogesh Munjal), Managing Director has almost two decades of experience in the auto component sector. Mr Munjal holds a Diploma in Business Management from Bradford & Ilkley Community College, England, besides a Bachelor Degree in Commerce.

Location advantage

The company's business profile is strongly linked with HML which is the largest customer of SAL and accounted for approximately 67% of revenue in FY18. On the other hand, HML is also dependent on SAL for procurement of gears and shafts which accounts for approximately 65-70% of its overall requirement. Thus, the two companies have strong operational linkages. Most of the manufacturing plants of SAL are located in the vicinity of HML's manufacturing plant.

Moderate financial risk profile

SAL has been expanding its capacity in recent past in order to meet the demands of HML and also tap other clienteles. During FY16-18, the company has developed two new facilities viz. in Bengaluru for manufacturing of automotive gears and shafts for HML and other OEMs and another in Rohtak for power tools. Moreover, with high debt facilities availed, the overall gearing stepped up from 2.10x on 31-Mar-17 to 2.19x on 31-Mar-18. The installed capacity increased from 933.23 lppa as on March 31, 2017 to 987.35 lppa as on March 31, 2018. During FY18, SAL achieved y-o-y growth of 22% in total operating income to Rs. 556.78 cr mainly driven by improved industry scenario. PBILDT margin improved significantly to 14.09% in FY18. With higher depreciation cost (due to commissioning of Bengaluru and Rohtak plant) and higher interest cost (for funding Bengaluru and Rohtak), the company incurred net loss of Rs.1.23 cr in FY18 against net loss of Rs.3.60 cr in FY17. However, the company continued to earn cash profit (FY18: Rs.33.22 cr; PY: Rs.18.93 cr).

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

The company achieved 13% y-o-y growth in total operating income to Rs. 464.88 cr (9MFY18: Rs. 410.74 cr). Also during 9MFY19, the PBILDT and PAT stood at Rs. 66.62 cr and Rs. 0.43 cr respectively.
Liquidity: The liquidity profile is marked by high working capital utilization of around 98% during 12m period ending 30-Nov-18. The current ratio stood at 0.70x as on 31-Mar-18. The prudent working capital management would be crucial. The company also has option of customer invoice discounting of its key customers to ease the working capital requirements.

Key Rating weaknesses
Revenue concentration; mitigated by established relationship with the key customer
SAL derives majority of its revenue from single client: HML. During FY18, SAL derived 67% of its revenue from HML Furthermore, majority of its product manufactured such as gears and shafts find usage in two wheelers. As a result, SAL is exposed to customer concentration as well as segment concentration risk.
However, the customer concentration risk is mitigated to a large extent due to long standing relationship with HML. HML, with operations expanding to 35 countries, is the largest 2-W manufacturer globally with annual sales volumes of more than 7.5 million units and has dominant position in domestic motorcycle and 2-W market. During FY18, the HML reported PAT of Rs.3,697 cr (PY: 3,546) on total income of Rs.33,398 cr (PY: 31,480).
Moreover, the company is also diversifying its customer concentration gradually and has now been focusing on new products and heavy industrial goods companies.

Working capital intensive operations
Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The customers are allowed credit period of 45-50 days, while payments to suppliers are made in 50-60 days. However, the company is required to maintain inventory of close to 2-3 months. The operating cycle of the company remains between 70-80 days. The working capital utilization usually remains high (avg: 96%, max: 98% during 12m period ending 30-Nov-18).

Analytical approach: Standalone

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

About the company
SAL, formerly known as Munjal Auto Components, commenced operations in Sep-1999 as an autonomous wing of 'HERO' Group. Later in 2005, the forging and machinery divisions were hived off and thus SAL was incorporated in July 29, 2005. The company is engaged in manufacturing of transmission gear & shafts, Precision Engineering Components (PECs), etc. for two wheelers. SAL has five plants located in Gurgaon, Manesar, Haridwar, Bengaluru and Rohtak.
Brief Financials

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	455.69	556.78
PBILDT	47.62	78.43
PAT	(3.60)	(1.23)
Overall gearing (times)	2.10	2.19
Interest coverage (times)	1.64	1.72

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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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	-	-	June 2026	337.93	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	28.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	180.00	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 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-Term Loan	LT	337.93	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Nov-17)	1)CARE BBB+; Negative (21-Feb-17) 2)CARE A- (20-Jun-16)	-
2.	Non-fund-based - ST-BG/LC	ST	28.00	CARE A2+	-	1)CARE A2+ (10-Nov-17)	1)CARE A2+ (21-Feb-17) 2)CARE A1 (20-Jun-16)	-
3.	Fund-based - LT-Cash Credit	LT	180.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Nov-17)	1)CARE BBB+; Negative (21-Feb-17) 2)CARE A- (20-Jun-16)	-

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