Shivam Autotech Limited

February 17, 2020

Ratings

Facility	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank facilities	472.90	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Revised from CARE BBB; Negative (Triple B; Outlook: Negative)**
Short-term Bank facilities	28.00	**CARE A3+ (A Three Plus)**	**Revised from CARE A2 (A Two)**
Total	**500.90 (Rupees Five Hundred crore and Ninty lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Shivam Autotech Ltd (SAL) factors in deterioration in the financial risk profile of the company during FY19 and 9MFY20 marked by cash losses, delicately poised liquidity position with high working capital utilization. Furthermore, the ratings remain constrained by moderated solvency and debt coverage indicators on account of debt funded capex in the past, revenue concentration risk, working capital intensive nature of operations and cyclical nature of auto sector. However, the ratings 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.

Rating Sensitivities

Positive Factors

- Improvement in Capital structure with overall gearing of less than 1.7x
- Improvement in profitability with PBILDT margin of 13% on a sustained basis

Negative Factors

- Deterioration in capital structure with overall gearing of more than 2.8x
- Moderation in profitability with PBILDT margin of less than 9%

Outlook: Negative

The outlook for the rating is changed to Negative on account of moderation in the financial risk profile of the company in FY19 and Q1FY20 owing to losses at net level. Further, the liquidity position of SAL is delicately poised due to high working capital utilization and moderation in debt coverage indicators.

Detailed Description of 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 Dec 31, 2019. 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 63% of sales in FY19. 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.

Key Rating Weakness

Moderation in financial risk profile

During FY19, SAL achieved y-o-y growth of 14% in total operating income to Rs.635.57 cr (PY: Rs.556.78 cr) mainly on account of increase in domestic sales in FY19 from Rs. 563.58 cr in FY18 to Rs. 630.79 cr in FY19. Also, SAL has ventured into new product line and started manufacturing Combined Braking System (CBS) at their Manesar and Haridwar plant. The PBILDT margin declined by 112 bps from 14.09% in FY18 to 12.96% in FY19. With higher depreciation cost, the company incurred net

loss of Rs.18.21 cr in FY19 against net loss of Rs.1.23 cr in FY18. However, the company continued to earn cash profit (FY19: Rs.34.67 cr; PY: Rs.33.22 cr). Overall gearing deteriorated and stood at 2.55x as on 31-Mar-19.
During 9MFY20, SAL achieved y-o-y growth of ~2% in total operating income to Rs. 473.98 cr (9MFY19: Rs. 466.27 cr) mainly driven by increased orders for CBS. With higher material costs due to introduction of CBS, the company achieved PBILDT of Rs. 50.08 cr and PBILDT margin declined to 10.57% in 9MFY20 (9MFY19: 14.58%). Further, the company reported net loss of Rs. 23.97 cr in 9MFY20.

Revenue concentration; mitigated by established relationship with the key customer
SAL derives majority of its revenue from single client: HML. During FY19, SAL derived 63% 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. Moreover, the company is also diversifying its customer concentration gradually and has now been focusing on new products and heavy industrial goods companies.

Liquidity: Stretched
The liquidity profile is delicately poised due to high working capital utilization 97% during 12m period ending 31-Jan-20. The current ratio stood at 0.64x as on 31-Mar-19. 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. 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 60-70 days. Out of total repayment of Rs. 61.83 cr in FY20, SAL has already paid Rs. 46.27 cr till Dec 31, 2019. The same is paid through working capital by stretching its creditors

Analytical approach: Standalone
Applicable Criteria
- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- Rating Methodology-Manufacturing Companies
- Criteria for Short-term Instruments
- CARE's methodology for auto ancillary companies
- CARE's methodology for financial ratios (Non-Financial Sector)
- CARE's methodology for Factoring Linkages in Ratings

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. During Q3FY20, the company reported total operating income of Rs. 143.57 cr and PBILDT of Rs. 11.95 cr (Q2FY20: Rs. 156.46 cr and Rs. 16.35 cr respectively).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	556.78	635.57
PBILDT	78.43	82.40
PAT	(1.23)	(18.22)
Overall gearing (times)	2.19	2.55
Interest coverage (times)	1.72	1.69

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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	-	-	Jun 2026	292.90	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	28.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	180.00	CARE BBB-; Negative

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	292.90	CARE BBB-; Negative	1)CARE BBB; Negative (20-Aug-19)	1)CARE BBB+; Stable (13-Feb-19)	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 A3+	1)CARE A2 (20-Aug-19)	1)CARE A2+ (13-Feb-19)	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-; Negative	1)CARE BBB; Negative (20-Aug-19)	1)CARE BBB+; Stable (13-Feb-19)	1)CARE BBB+; Stable (10-Nov-17)	1)CARE BBB+; Negative (21-Feb-17) 2)CARE A- (20-Jun-16)

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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