Shivam Autotech Limited

February 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	402.50 (enhanced from 310)	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Revised from CARE A- (Single A Minus)**
Short-term Bank Facilities	66.00 (enhanced from 33)	**CARE A2+ (A Two Plus)**	**Revised from CARE A1 (A One)**
Total Facilities	**468.50 (Rupees Four Hundred Sixty Eight crore and Fifty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Shivam Autotech Limited (SAL) factors in the moderation in the financial profile during H1FY17 in terms of profitability and debt coverage indicators due to delay in the stabilization of its greenfield plants in Bengaluru (Karnataka) and Rohtak (Haryana). The ratings are further constrained by revenue concentration risk and debt-funded capex in recent past impacting its overall gearing as on March 31, 2016.

The ratings continue to derive strength from the experienced and resourceful promoters, favourable location of its plants, strong operational linkages and long-standing relationship with its major customer.

Going forward, the company's ability to improve its profitability margins while ramping up its production in the new greenfield plants as envisaged would remain the key rating sensitivities.

Outlook: Negative

The outlook is "Negative" on the back of delayed stabilization of the recent greenfield projects and its subsequent impact on SAL's financials. The outlook may be revised to stable with improvement in operational performance due to ramp up of the new plants and improvement in profitability margins and debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderation in the financial profile during H1FY17: The financial profile of SAL witnessed moderation during FY16 (refers to the period April 1 to March 31) and H1FY17 on account of the two new Greenfield project executed in recent past. Due to initial teething issues and delayed stabilization of the two plants, the fixed cost absorption was lower during the period which led to decline in the PBILDT margin to 13.70% during H1FY17 as against 16.62% during FY16.
The company completed expansion project in Bangalore and Rohtak with total cost of approximately Rs.180 crore funded with debt of approximately Rs.140 crore and internal accruals of Rs.40 crore leading to increase in the overall gearing to 1.56x as on March 31, 2016 (PY:1.09x and further to 1.96x as on September 30, 2016. The Total Debt to GCA increased from 3.57x in FY15 to 6.41x in FY16 and subsequently to 9.20x during H1FY17. Similarly, the interest coverage ratio also witnessed moderation from 4.16x in FY15 to 3.28 in FY16 and subsequently to 2.38 in H1FY17.

Revenue concentration: SAL derives majority of its revenue from single client: Hero MotoCorp Limited (HML). During FY16, SAL derived 74% of its revenue from HML and 66% in H1FY17. 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.

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

Key Rating Strengths

Experienced promoters: SAL is part of the Satyanand Munjal Group (Late Mr Satyanand Munjal was brother of Late Mr Brij Mohan Lall Munjal) and was started in 1999 to meet the requirements of HML's component requirements. Mr Sunil Kant Munjal (son of Late Mr Brijmohan Lall Munjal) is the Chairman, whereas Mr Neeraj Munjal is the Managing Director.

Location advantage: The company business profile is strongly linked with HML. Most of the manufacturing plant of SAL is located in the vicinity of HML's manufacturing plant in order to take the advantage of the logistics. SAL works in close integration with HML and the manufacturing is completely aligned with HML's requirements.

Analytical approach: Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for Short-term Instruments](#)
[Rating Methodology – Manufacturing Companies](#)
[CARE's methodology for financial ratios (Non Financial sector)](#)

About the Company

SAL, formerly known as Munjal Auto Components (MAC) commenced operations in September 1999 as an autonomous wing of the HERO Group. Later in 2005, the forging and machinery division was hived off from Munjal Auto Industries Limited and thus SAL was incorporated in July 2005. The company is engaged in manufacturing of transmission gear & shafts, Precision Engineering Components (PECs), etc, for two wheelers. The company has also diversified into four-wheeler components, though the revenue contribution is around 10-15%.
During FY16, SAL reported PAT of Rs.19.24 crore on total operating income of Rs.424.12 crore as against PAT of Rs.28.14 crore on total operating income of Rs.445.82 crore during FY15. During H1FY17 (Provisional), the company reported PAT of Rs.2.11 crore on a total operating income of Rs.238.65 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.*

Analyst Contact:
Name: Mr Manek Narang
Tel: 0114533 3233
Mobile: 9810596225
Email: manek.narang@careratings.com

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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, 2023	232.50	CARE BBB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	66.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	170.00	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	232.50	CARE BBB+; Negative	1)CARE A- (20-Jun-16)	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	66.00	CARE A2+	1)CARE A1 (20-Jun-16)	-	-	-
3.	Fund-based - LT-Cash Credit	LT	170.00	CARE BBB+; Negative	1)CARE A- (20-Jun-16)	-	-	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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