Shivam Autotech Limited

October 06, 2020

Ratings

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities	431.74 (reduced from 472.90)	**CARE BB; Negative (Double B; Outlook: Negative)**	**Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**
Short-term Bank facilities	40.00 (enhanced from 28.00)	**CARE A4 (A Four)**	**Revised from CARE A3 (A Three)**
Total	**471.74 (Rupees Four Hundred Seventy One Crore and Seventy-Four Lakhs only)**		

Details of instruments/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 financial risk profile in FY20 (refers to the period between April 01, 2019 and March 31, 2020) and Q1FY21 (refers to the period between April 01, 2020 and June 30, 2020) marked by cash losses at net level, 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 towards few customers, 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, favourable location of plants, strong operational linkages and long-standing relationship with its major customer.

SAL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 03, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

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 3.5x
- Moderation in profitability with PBILDT margin of less than 7% on sustained basis

Outlook: Negative

The negative outlook reflects CARE’s belief that the operating performance would remain subdued for FY21 owing to subdued demand in the domestic market due to slowdown in the auto industry coupled with uncertainty associated with recovery in demand on account of Covid-19 pandemic. The liquidity position of SAL is delicately poised due to high working capital utilization and moderation in debt coverage indicators. The outlook may be revised to Stable if the sales volume growth shows some meaningful positive growth for a period of at least six months.

Detailed Description of Key Rating Drivers

Key Rating Weakness

Weakening of financial risk profile

During FY20, SAL achieved total operating income to Rs.587.83 cr (PY: Rs.635.57 cr) mainly on account of decrease in domestic sales in FY20 from Rs. 630.79 cr in FY19 to Rs. 587.83 cr in FY20. PBILDT margin declined by 419 bps from 12.96% in FY19 to 8.78% in FY20 on account of higher material cost and operating overheads on introduction of CBS. 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.37.13 cr in FY20 against net loss of Rs.18.21 cr in FY19.

Q1FY21 Performance: The company achieved TOI to Rs. 38.22 cr (Q1FY20: Rs. 173.94 cr) witnessing y-o-y decline of 78% in TOI of the company. The spread of Covid-19 has impacted the overall economy and business activities of the company from mid of the month March, 2020. The company operations became largely operational from last week of May, 2020, post relaxation of the nationwide lock down. As a result the volumes/revenue for the current quarter has decreased. Due to this, the company reported net loss of Rs. 30.79 cr in Q1FY21 as against net loss of Rs. 8.42 cr in Q1FY20. Further, the promoters of the company have infused funds of around Rs. 30 cr in Q1FY21 to support the business operations.

Revenue concentration; mitigated by established relationship with the key customer

SAL derives majority of its revenue from single client: HML. During FY20, SAL derived 63% of its revenue from HML Furthermore, majority of its product manufactured such as gears and shafts find usage in two wheelers. ; Thereby exposing the company towards customer concentration risk as well as segment concentration risk. Any change in procurement policy of this customer may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans.

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.

Low bargaining power with customers and susceptibility of margins to volatility in raw material prices

Though there exists limited bargaining power with the customers, since the major customers are auto companies/OEMs, however, the company does have a mechanism wherein any revision in the raw material prices is reset by the OEMs on monthly basis and the change in the raw material prices are accommodated subsequently. The major raw material (Steel) cost accounts for around 50% of total operating income, furthermore, global prices for Steel are volatile which exposes SAL to price risk.

Cyclical nature of the automotive industry

The automobile industry is highly cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is highly competitive with the presence of a large number of players in the organized as well as unorganized sector.

The auto industry was already facing slowdown in India as well as globally which was further aggravated by the advent of Coronavirus pandemic which led to the nation-wide lockdowns, thereby leading to breaks in the production activity at various locations around the world. This led to subdued volumes in Q4FY20 which continued in Q1FY21 as well as there was lockdown for large part of this quarter combined with supply chain issues. The consumer demand which could not be met in April, May 2020 and initial days of June 2020 due to the nation-wide and various state lockdowns is expected to be spread across the next 6 months - from July to December 2020. The festive season is a crucial period for automobiles sector, as this is the time of the year when consumers usually make purchases of large ticket items, which are discretionary in nature. The festive season of this year will be even more pivotal for the automobile sector, as it is has long been affected by bloomy consumer sentiments even before the pandemic started in the nation. Also macroeconomic numbers continue to disappoint, reaching pre-Covid level is unlikely in FY21. While volume pickup is expected from H2-FY21, full demand recovery is expected only in FY22. It is expected that the 2-wheelers, passenger vehicles and tractor segments shall witness faster recovery than the rest.

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 June 30, 2020. 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 FY20. 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.

Consolidation of Business Operations of Manesar Plant

In order to reduce its costs, the Company has decided to close manufacturing activities at its plant situated at Manesar Gurugram. The revenue from Manesar plant in FY20 was Rs. 67.08 cr. Manesar plant was rented plant as closure of the plant is expected to reduce costs like rent and administrative costs. There is no impact from production standpoint. The production capacity will absorbed into the Company's fully integrated plant situated in Rohtak. Further the Company expects an on-going enhancement in its manufacturing margins due to more efficient production processes and elimination of duplicated overheads and thus, the said closure of manufacturing facilities do not have any material and adverse effect on the operations of the Company and good for overall system economy, ecology and customers.

Liquidity: Poor

The liquidity profile is delicately poised due to high working capital utilization 95% during 12m period ending 30-Jun-20. The current ratio stood weak at 0.54x as on 31-Mar-20. 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 60-70 days. However, the company is required to maintain inventory of close to 60-70 months. The operating cycle of the company improved and remained between 45-50 days.

To tide over the uncertainty attached to the Covid-19 outbreak, the company has taken the moratorium facility for its debt obligations, which is in line with the Covid-19 regulatory package. As informed to CARE, this is in the anticipation of the said approval from the concerned lenders following the regulatory package by RBI; some of the scheduled repayments were deferred by the company.

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 four plants located in Gurgaon, Haridwar, Bengaluru and Rohtak. In order to reduce its costs, the Company has decided to close manufacturing activities at its plant situated at Manesar Gurugram.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	635.57	587.83
PBILDT	82.40	51.59
PAT	(18.21)	(37.13)
Overall gearing (times)	2.55	3.21
Interest coverage (times)	1.69	0.97

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	-	-	FY2026	251.74	CARE BB; Negative
Non-fund-based - ST-BG/LC	-	-	-	40.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	180.00	CARE BB; 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 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	251.74	CARE BB; Negative	1)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Negative (17-Feb-20) 2)CARE BBB; Negative (20-Aug-19)	1)CARE BBB+; Stable (13-Feb-19)	1)CARE BBB+; Stable (10-Nov-17)
2.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A4	1)CARE A3 (22-May-20)	1)CARE A3+ (17-Feb-20) 2)CARE A2 (20-Aug-19)	1)CARE A2+ (13-Feb-19)	1)CARE A2+ (10-Nov-17)
3.	Fund-based - LT-Cash Credit	LT	180.00	CARE BB; Negative	1)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Negative (17-Feb-20) 2)CARE BBB; Negative (20-Aug-19)	1)CARE BBB+; Stable (13-Feb-19)	1)CARE BBB+; Stable (10-Nov-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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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