ShivamAutotech Limited

November 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	483.23 (enhanced from Rs.402.50 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Short-term Bank Facilities	37.00 (reduced from Rs.66 crore)	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**520.23 (Rupees Five Hundred and Twenty crore and Twenty Three lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of ShivamAutotech Limited (SAL) take into account the commissioning of new plants leading to improved financial performance in Q1FY18. 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.

The ratings, however, remain constrained by the subdued performance of the company in FY17 including decline in profitability margins as well as weakening of debt coverage indicators due to delay in the stabilization of its greenfield projects as well as effect of demonetization on the operations. 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 SatyanandMunjal Group (Late Mr SatyanandMunjal was brother of Late Mr BrijMohanLallMunjal) 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 MrBrijmohanLallMunjal) has a vast experience in the 2-W industry. He was also previously the Joint Managing Director of HML. MrNeerajMunjal, Managing Director has almost two decades of experience in the auto component sector. MrMunjal 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 68% of revenue in FY17. On the other hand, HML is also dependent on SAL for procurement of gears and

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

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 Hero 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. Out of total cost of both projects of Rs. 178.86 cr, the company funded Rs.167.86 cr out of term debt and remaining Rs.11.00 cr out of equity. Moreover, with high working capital utilization, the overall gearing stepped up from 1.57x on 31-Mar-16 to 2.11x on 31-Mar-17. Owing to delays in these projects as well as reduced 2-W demand owing to demonetization, the company had witnessed muted performance in FY17 by achieving 7% growth in operating income to Rs.456 crore (PY: Rs.424 crore). Furthermore, PBILDT margin dipped to 10.32% in FY17 (PY: 16.62%) on account of higher material cost (incl. wastages) and overheads expenses in the new facilities as well as lower margins during demonetization period. With higher depreciation cost (due to commissioning of Bengaluru plant) and interest cost (for funding Bengaluru plant), the company incurred net loss of Rs.3.83 cr in FY17 against PAT of Rs.19.24 cr in FY16. The coverage ratios also deteriorated with interest coverage of 1.63x in FY17 against 3.28x in FY16 and total debt to GCA at 21.63x as on 31-Mar-17 (PY: 6.42x). However, the company continued to earn cash profit (FY17: Rs.18.52 cr; PY: Rs.47.52 cr). With all plants operational, the company's performance improved significantly in Q1FY18 and the company achieved 17% growth in operating income and increase in PBILDT margin to 15.96% in Q1FY18 against 13.14% in Q1FY17.

Key Rating Weaknesses

Revenue concentration; albeit mitigated by strong operational linkages with HML Group

SAL derives majority of its revenue from single client: 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.

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 6.6 million units and has dominant position in domestic motorcycle and 2-W market. During FY17, the HML reported PAT of Rs.3,377cr (PY: 3,160) on total income of Rs.31,369 cr (PY: 31,123).

Moreover, the company is also diversifying its customer concentration gradually and has now been focusing on four wheeler as well as heavy industrial goods companies. The two new plants are focused to cater to different companies and industries which would help the company to reduce its revenue concentration going forward.

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 months. The operating cycle of the company remains between 70-80 days. The working capital utilization usually remains high (avg: 91%, max: 96% during 12m period ending 30-Sep-17). Further, the large portion of current debt has resulted in low current ratio of the company of 0.81x as on 31-Mar-17 (PY: 0.90x).

Industry scenario

Indian Auto Component Industry is transforming itself from a low-volume, highly fragmented one into a competitive industry backed by strengths like technology, efficiency and evolving value chain. The industry mainly caters to 2 segments viz. Original Equipment manufacturers (OEM) and replacement market (aftermarket). OEM dominates the auto component market contributing around 80 per cent of the market while the replacement market share is around 20 per cent. Unorganized players mainly dominated the replacement market, which were mostly Tier 3/4 component manufacturers. The market size for auto component sector increased by 14% to $ 44 billion (Rs.2.92 lac crore) in FY17 from $39 bn (Rs.2.56 lac crore) in FY16 (Automotive Component Manufacturers Association of India). As per data from SIAM, sale of 2W grew by 7% respectively in FY17 against 3% in FY16.

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 divisionswere 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 (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	424.12	455.69
PBILDT	70.49	47.03
PAT	19.24	(3.83)
Overall gearing (times)	1.57	2.11
Interest coverage (times)	3.28	1.63

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.*

Analyst Contact:
Name: Manek Narang
Mobile: 98105 96225
Tel: 011-4533 3233
Email: manek.narang@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	Oct-24	273.23	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	29.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	210.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	273.23	CARE BBB+; Stable	-	1)CARE BBB+; Negative (21-Feb-17) 2)CARE A- (20-Jun-16)	-	-
2.	Non-fund-based - ST-BG/LC	ST	29.00	CARE A2+	-	1)CARE A2+ (21-Feb-17) 2)CARE A1 (20-Jun-16)	-	-
3.	Fund-based - LT-Cash Credit	LT	210.00	CARE BBB+; Stable	-	1)CARE BBB+; Negative (21-Feb-17) 2)CARE A- (20-Jun-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

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. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@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

CIN - L67190MH1993PLC071691