January 03, 2022

Marelli Motherson Auto Suspension Parts Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	6.10	0.00	-
Long-term/ Short-term – Fund-based/ Non-fund Based	15.00	15.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Long-term Unallocated	0.00	6.10	[ICRA]A-(Stable); reaffirmed
Total	**21.10**	**21.10**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation for Marelli Motherson Auto Suspension Parts Private Limited (MMASPL) continues to factor in the strong financial, operational and managerial support provided by the promoters, Samvardhana Motherson International Limited (SAMIL) and Marelli Europe SpA (MES, erstwhile Magneti Marelli SpA). The ratings continue to draw support from MMASPL being a part of SAMIL's core automotive component business operations in the domestic market, which is reflected in the involvement of SAMIL's board members in the day-to-day operations of the company. Furthermore, ICRA expects MES to continue to extend technological support to MMASPL, as demonstrated over the years, which would continue to support its business prospects in both domestic as well as export markets. ICRA also expects both parent companies to extend their timely financial support to MMASPL, as and when the need arises, as demonstrated by timely equity infusions and extension of letter of comfort for the borrowings availed by the company.

The ratings, however, remain constrained by the company's modest scale of operations and sub-optimal capacity utilisation (~55% at present), leading to suppressed return indicators compared to industry peers. The company's revenues in FY2021 dipped slightly to Rs.132.2 crore from Rs.148.5 crore in FY2020 due to the pandemic-induced disruptions. However, it improved subsequently as the situation normalised, with the company reporting revenues of Rs. 89.9 crore in 7M FY2022, on the back of improved traction in volumes. This is expected to continue over the medium term, supported by new orders for gas springs, as well as those in the pipeline for shock absorbers, from existing as well as new original equipment manufacturer (OEM) clients. While these are expected to support improvement in revenues and return indicators as supplies ramp up, the investments undertaken for capacity expansion, their funding mix and resultant impact on credit metrics would also be monitored. Nevertheless, ICRA notes that currently the company's capitalisation and coverage indicators remain comfortable with nil term debt and low working capital utilisation, which also support its liquidity position. The ratings also factor in the intense competition in the domestic ride-control component market with the presence of well-entrenched global and domestic, Tier I suppliers.

The Stable outlook factors in ICRA's expectation that MMASPL would continue to maintain its business and financial risk profile at the current comfortable levels, with support from its promoter entities as and when required.

Key rating drivers and their description

Credit strengths

Strong promoter and experienced management – MMASPL has a strong parentage with equal equity participation in the company from the reputed Samvardhana Motherson Group and Marelli Europe SpA (a wholly-owned subsidiary of CK Holdings Co. Limited). The company's management comprises professional and experienced personnel from the auto-ancillary industry.

Strong technological support from MES – MMASPL derives strong technological and operational support from MES, which is one of the key suppliers of shock absorbers to passenger car manufacturers globally. The parent company is expected to support MMASPL technologically, mitigating the technology obsolescence risk to some extent.

Established brand and marketing network of Motherson Group – The Motherson Group has a strong foothold in the domestic market with an established brand and a marketing network. It enjoys healthy relationships with reputed OEMs in India, which is expected to help MMASPL gain traction in the domestic market in the medium to long-term.

Credit challenges

Sub-optimal capacity utilisation leads to suppressed return indicators – MMASPL's return indicators remain weak (RoCE of -2.7% in FY2021) due to sub-optimal capacity utilisation. The current utilisation level stands at around 55%, which is expected to ramp up in the medium term on the back of supplies for new orders, thereby improving profitability and return indicators. In the past, operating losses and other funding requirements were adequately met by regular equity infusions and indirect financial support from the promoters in the form of extended credit periods. This is expected to continue, going forward, as well.

Intense competition in domestic market – MMASPL faces intense competition in the domestic ride-control component market with the presence of well-entrenched domestic and global players.

Modest scale of operations –MMASPL's scale of operations remains modest with revenues of Rs. 132.2 crore in FY2021. However, its scale of operations is expected to increase gradually in the near to medium term, driven by incremental orders from domestic OEMs. The company's operations are concentrated in the manufacturing unit in Pune, Maharashtra, exposing it to asset concentration risks.

Exposed to volatility in foreign exchange movement – The company imports about one-third of its raw material requirements, exposing its earnings to foreign exchange volatility risk. The company does not have any formal hedging policies in place, but there is a natural hedge from export sales (31% of sales in FY2021), which partially mitigates the risk. Further, pricing agreements with group companies (~35% of total sales in FY2021) come with pass-through clauses for adverse currency movements, which insulate profit margins from adverse foreign currency exchange rate movements to an extent.

Liquidity position: Adequate

The average utilisation of working capital limits remained low between August 2020 and October 2021, with nil utilisation as of October 2021, resulting in a buffer of Rs. 15 crore as unutilised credit lines. Against this, the company has nil repayment obligations as all its term loans have been repaid in the current fiscal. ICRA also notes that the JV partners have extended support in a timely manner, whenever required, to support MMASPL's credit profile. Both the JV partners have extended letters of comfort to MMASPL's bank facilities.

Rating sensitivities

Positive factors – ICRA could upgrade MMASPL's rating if there is substantial improvement in the scale of operations, profitability and return indicators on a sustained basis. The ratings could also be upgraded in case of improvement in credit profile of its parent companies.

Negative factors – Pressure on MMASPL's rating could arise if the credit profiles of the company or its promoter entities deteriorate materially or if the linkage between MMASPL and the promoter group weakens.

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Impact of parent or group support on an entity's rating
Parent/Group Support	Parent/Group Company: SAMIL and MES The ratings assigned to MMASPL factor in the very high likelihood of its parents, SAMIL and MES, extending financial support to it because of the close business linkages with the company. ICRA also expects SAMIL and MES to be willing to extend financial support to MMASPL out of the need to protect their reputation from the consequences of a Group entity's distress. There is also a consistent track record of SAMIL and MES having extended timely financial support to MMASPL, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Marelli Motherson Auto Suspension Parts Private Limited (MMASPL) is a 50:50 joint venture between Marelli Europe SpA (formerly known as Magneti Marelli SpA) and Samvardhana Motherson Group. MMASPL deals in the design, production and marketing of shock absorbers, including semi-corner modules and gas springs, for cars and commercial vehicles. The products are aimed at local and international car makers operating in the Indian sub-continent and nearby regions. The company was initially set up with an annual manufacturing capacity of 2.3 million shock absorbers and 1.0 million gas spring units at Chakan (near Pune). The present installed capacity stands at 3.2-million shock-absorbers and 1-million gas springs.

Key financial indicators (audited)

MMASPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	148.5	132.2
PAT (Rs. crore)	(2.9)	0.5
OPBDIT/OI (%)	7.6%	9.9%
PAT/OI (%)	-1.9%	1.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDIT (times)	2.1	1.3
Interest Coverage (times)	4.4	5.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 03, 2022	Feb 19, 2021	Feb 14, 2020	Dec 28, 2018
1	Term Loans	Long-term	0.00	--	--	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A- (Stable)
2	Fund based /non -fund based	Long-term and short term	15.00	--	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
3	Unallocated	Long-term	6.10	--	[ICRA]A-(Stable)	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based / Non-fund Based Working Capital	Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Indusind Bank	Fund based/Non fund based	NA	NA	NA	15.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	Unallocated	NA	NA	NA	6.10	[ICRA]A-(Stable)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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