March 23, 2022

Fritzmeier Motherson Cabin Engineering Private Limited: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	20.00	15.42	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Cash Credit	13.00	15.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Fund Based Limits	2.00	0.00	-
Interchangeable Limits**	(6.00)	(6.00)	[ICRA]A1; Reaffirmed
Unallocated Limits	3.02	3.58	[ICRA]A+ (Stable)/ [ICRA]A1; Long-term rating upgraded from [ICRA]A (Stable); Short-term rating reaffirmed
Total	**38.02**	**34.00**	

**Instrument details are provided in Annexure-1; **Sub-limit of cash-credit facility*

Rationale

The rating upgrade takes into consideration an improvement in the credit profile of Fritzmeier Motherson Cabin Engineering Private Limited's (FMCEPL) parent entity, Samvardhana Motherson International Limited (SAMIL), post its merger with Motherson Sumi Systems Limited (MSSL), the flagship company of the Motherson Group. ICRA notes that post the receipt of NCLT approval and completion of the merger of SAMIL into MSSL (w.e.f. January 21, 2022), the credit profile of FMCEPL's parent has become stronger, which is expected to aid the company in maintaining healthy financial flexibility.

The rating upgrade also factors in an expectation of an improvement in the scale of operations and profitability indicators of FMCEPL, going forward. With the help of Fritzmeier Holding GmbH (Fritzmeier; part of the Fritzmeier Group, Germany) as one of its parents, the company has been able to develop technologically superior cabins with enhanced safety features, which augurs well for enhancing its share of business with its customers, especially in view of tightening safety and regulatory norms in India. Additionally, the presence of Fritzmeier with major global mining and construction equipment (MCE) original equipment manufacturers (OEMs) has also supported FMCEPL in gaining business from the former's Indian subsidiaries, and would continue to aid the company's growth prospects.

The ratings continue to take into consideration FMCEPL's healthy business profile, which is supported by well-established relationships with customers and a diversified revenue stream with presence across the MCE and tractor industries. ICRA notes that the company has been actively engaged in improving its business prospects and has gained business from both existing as well as new customers for cabin supply. Additionally, the company has been improving the scope of supplies for its existing products by introducing additional fabricated components and continues to engage with its foreign parent for developing other products as well. Supported by these efforts and recovery in demand post the pandemic, the company is witnessing a healthy revenue growth in the current fiscal (revenues of ~Rs. 101.6 crore in 11M FY2022). Going forward as well, the company has a healthy order pipeline in hand, aided by business wins from several key customers, which will support further scale up in operations. The ramp up in the scale of operations is also expected to provide operating leverage benefits with the company's operating profit margin expected to improve to 14-15% (from 9.1% in FY2021) over the medium term.

The ratings remain constrained by FMCEPL's modest scale of operations with revenues at ~Rs. 74 crore during FY2021, and operations limited to a niche product category, viz. supply of cabins for MCE and tractor industries. ICRA notes that the company had incurred debt-funded capex over the last 2-3 years towards construction of a new building for new projects, purchase of machines and refurbishment of its paint shop, which has led to moderation in its credit metrics. Over the medium term, the company plans to incur ~Rs. 20 crore to set up a new plant, which is expected to be funded by a mix of debt and equity infusion. While ICRA expects the credit metrics to improve gradually over the medium term on the back of recovery in profit margins and scale up of operations, a larger than expected debt-funded capex could impact its credit metrics and would remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that FMCEPL's business prospects remain healthy over the near term, supported by supplies for multiple new orders scheduled to scale up. Despite moderate capex plans over the medium term, the company is likely to maintain a comfortable financial risk profile, going forward, aided by healthy cash flow generation.

Key rating drivers and their description

Credit strengths

Strong parentage as JV between Samvardhana Motherson Group and Fritzmeier Holding GmBH gives it access to technical know-how and global OE customer base – As a 50:50 JV between the Samvardhana Motherson Group, India, and Fritzmeier Group, Germany, FMCEPL benefits from product development capabilities and technical knowledge, healthy customer connect and financial flexibility. The strong parentage of the company is likely to continue to aid its business prospects, going forward, and provides comfort.

Well-established relationships with customers supported by its German parentage and proven design and development capabilities – The strong parentage of Fritzmeier has helped the company design technologically superior cabins that are comparable with global standards, which augurs well for its business development with global OEMs. Supported by its proven design and development capabilities, FMCEPL has been able to garner superior margins on its products vis-à-vis its peers and has forged strong relationships with its customers. Its clients are large, well-established players in the global MCE and agricultural equipment industries, including the likes of Caterpillar, Kobelco, Komatsu, Mahindra and Mahindra (M&M) and John Deere (JD).

Diversified business profile across construction equipment and tractor industries – Through its presence across the MCE and tractor industries, FMCEPL has healthy revenue diversification. Additionally, the company supplies to a variety of product segments within the MCE industry such as dump trucks, excavators and backhoe loaders, which find usage across multiple applications. Further, a healthy proportion of the company's supplies to its domestic clientele are earmarked for exports to Europe, North America, and South East Asia, which offers further diversification to revenue streams and protects it from demand downturns in the domestic MCE and tractor markets. Hence, overall, FMCEPL's revenues remain diversified despite operating in highly cyclical industries.

Healthy business pipeline likely to support revenue growth over the medium term – The company is actively engaged in pursuing new businesses with its existing customers as well as in expanding its customer base. In addition to expanding its scope of supplies with existing customers to include new models and products, the company has expanded its customer portfolio to include multiple new OEMs, such as Tata Hitachi, Preet Tractors, Doosan Bobcat, and Schwing Stetter, over the last 2-3 years. Going forward, the company has a healthy business pipeline supported by business wins from several customers, which is likely to continue to support its revenue growth prospects.

Credit challenges

Modest scale of operations because of presence in a niche product category – FMCEPL is a relatively small player in the domestic auto-ancillary space, with revenues of only ~Rs. 74 crore in FY2021. This is primarily due to its scope of operations being limited to a niche product category, viz. supply of cabins to high-end CE and agricultural equipment. Nevertheless, the company is witnessing a healthy scale up in its operating income during the current fiscal (revenue growth is expected to be ~40-45% YoY in FY2022), buoyed by healthy traction from its key customers, such as M&M, Caterpillar, JD and Komatsu.

Debt-funded capex resulted in moderation in credit metrics; ramp up in scale of operations to aid a gradual improvement in credit metrics – With debt-funded capex incurred over the last 2-3 years towards construction of a new building to cater to new projects, purchase of machines and refurbishment of its paint shop, FMCEPL's credit metrics have moderated with Total Debt/ OPBITDA increasing to 1.9 times in 9M FY2022 from 0.2 time in FY2019. Nevertheless, the credit metrics are expected to improve gradually over the medium term on the back of recovery in profit margins and scale up of operations.

Liquidity position: Adequate

FMCEPL's liquidity position is **adequate** supported by comfortable fund flow from operations and availability of unutilised working capital limits (average of ~Rs. 4 crore during the 12-month period ending in February 2022). The company's debt repayments of ~Rs. 5.5 crore and capex requirements of Rs. 4-5 crore in FY2023 are expected to be met from internal accruals and available lines of credit.

Rating sensitivities

Positive factors

ICRA could upgrade FMCEPL's rating in case of:

- sustained scale up in operations supported by increasing share of business with key OEMs
- improvement in profitability indicators while maintaining comfortable debt coverage indicators and liquidity position
- improvement in the credit profile of the parent company, MSSL

Negative factors

ICRA could downgrade FMCEPL's rating in case of:

- slower than expected ramp up in the new projects
- increased debt-funded capex leading to deterioration in profitability and credit metrics with Total Debt/OPBITDA above 2.5x on a sustained basis
- deterioration in the parent's (MSSL) credit profile
- weakening of linkages with the parent entity

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Rating Approach- Implicit support from Parent or Group
Parent/Group Support	Parent Company: Samvardhana Motherson International Limited (SAMIL) and Fritzmeier Holding GmbH (Fritzmeier) We expect the JV partners to be willing to extend financial support to FMCEPL, should there be a need, given the strategic importance that FMCEPL holds for

	them. FMCEPL also shares a common name with both JV partners, which in ICRA's opinion would persuade the JV partners to provide financial support to FMCEPL to protect their reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Incorporated in 2007, FMCEPL is a leading manufacturer of operator cabins for off-highway vehicles like heavy duty dump-trucks, excavators, back hoe loaders, wheel loaders and agricultural tractor cabins. Its cabins meet high level of international safety requirements like roll-over protective structures (ROPS) and fall-over protective structures (FOPS). The company caters to well-established OEMs in the CE and agricultural equipment space such as Caterpillar, Komatsu, Kobelco, John Deere, Escorts, and Mahindra & Mahindra, both for their domestic as well as export requirements.

FMCEPL is a 50:50 joint venture between Fritzmeier Holding GmbH (a Fritzmeier Group company) and Samvardhana Motherson International Limited (a Motherson Group company, now merged with MSSL). The company's facility at Kancheepuram (near Chennai) has an installed production capacity of 7,500 cabins per year. The company's board comprises four members with two representatives each from the Motherson Group and Fritzmeier Group.

Key financial indicators (audited)

FMCEPL Standalone	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	77.1	73.9	79.3
PAT (Rs. crore)	1.7	2.1	4.9
OPBDIT/OI (%)	8.4%	9.1%	13.3%
PAT/OI (%)	2.2%	2.8%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.8	0.8
Total Debt/OPBDIT (times)	2.8	3.3	1.9
Interest Coverage (times)	8.1	8.4	8.7

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

*Source: Company, ICRA Research; * Provisional numbers; All calculations are as per ICRA research*

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 Jan 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 23, 2022	Jan 29, 2021	Oct 28, 2019	Aug 27, 2018
1	Term Loans	Long-term	15.42	15.42	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Cash Credit	Long-term	15.00	--	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund Based Limits	Short-term	--	--	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Interchangeable Limits	Short-term	(6.00)	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	Unallocated Limits	Long term and Short term	3.58	--	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-
6	Long term Unallocated	Long term	--	--	-	-	-	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Fund Based Limits	Not applicable
Interchangeable Limits	Very Simple
Unallocated Limits	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.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	Nov 2019	NA	Nov 2023	8.52	[ICRA]A+ (Stable)
NA	Term Loan-1	Nov 2021	NA	Nov 2026	6.90	[ICRA]A+ (Stable)
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]A+ (Stable)
NA	Interchangeable Limits	NA	NA	NA	(6.00)	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	3.58	[ICRA]A+ (Stable)/ [ICRA]A1

Source: *Company*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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