

April 27, 2023

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/ Short-term – Fund-based/ Non-fund Based	15.00	15.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Unallocated	6.10	6.10	[ICRA]A-(Stable); reaffirmed
Total	21.10	21.10	

*Instrument details are provided in Annexure-I

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; rated [ICRA]A1+) and Marelli Europe SpA (MES; erstwhile Magneti Marelli SpA). The ratings continue to draw support from MMASPL as 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 timely financial support to MMASPL, as and when the need arises, as demonstrated by timely equity infusions in the past, and continued extension of letter of comfort for the borrowings availed by the company. ICRA also notes the change in the credit profile of the Indian JV partner, post its merger with Motherson Sumi Systems Limited (MSSL), although there have been no operational or financial implications for MMASPL.

The ratings, however, remain constrained by the company's modest scale of operations and weak operating performance in the previous fiscal, wherein it reported operating losses on account of issues faced during ramping up a new order. While the company has taken steps to contain the same, going forward, its ability to arrest such operational challenges and demonstrate healthy profitability as it scales up its business remains critical. ICRA also notes that despite the modest scale of operations and weak earnings profile, the company's capitalisation indicators remain largely comfortable on account of limited dependence on external borrowings. The ratings also factor in the company's customer concentration risks on account of high dependence on its top customer (55% in FY2022), along with intense competition in the domestic ride-control component market with 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 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 with demonstrated financial support – MMASPL has a strong parentage with equal equity participation 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. Further, while the company has been self-sufficient in meeting its requirements over the recent past, ICRA notes the demonstrated financial support from the parent companies over the past in the form of regular equity infusion and letter of comfort extended for its external borrowing, and likelihood of continuation of the same in case of any exigencies.

Strong technological support from MES – MMASPL derives strong technological and operational support from MES, which is one of the key suppliers of shock absorbers for 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 marketing network. It enjoys healthy relationships with reputed OEMs in India, which is expected to help MMASPL gain traction in the domestic market over the medium to long-term.

Credit challenges

Weak profitability and return indicators, operating losses incurred in FY2023 – MMASPL's profitability and return indicators continue to remain weak due to its sub-optimal capacity utilisation, averaging at 40% in FY2023. The same was compounded in FY2023 as the company reported operating losses, primarily on account of high rejections from one of its key customers for new product supplies. While the company has taken steps to contain the same, going forward, its ability to arrest such operational challenges and demonstrate healthy profitability as it scales up its business remains critical.

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

Modest scale of operations – MMASPL's scale of operations remains modest with revenues of Rs. 162.3 crore in FY2022. However, its scale of operations is expected to increase gradually over the near to medium term, driven by incremental orders received from domestic OEMs, in both passenger vehicle and commercial vehicle segments.

Customer concentration risk – Although the company has been scaling up its operations over the recent past and securing business from additional OEMs, its dependence on its top customer remains high at more than 50% during FY2022 and 11M FY2023. However, ramp up in supplies to other customers for new orders is expected to help mitigate this risk over the medium term.

Liquidity position: Adequate

MMASPL's liquidity position is adequate supported by expected cash accruals of Rs. 8-10 crore in FY2024, free cash and liquid investments of Rs. 0.4 crore as on February 28, 2022, and buffer from undrawn working capital lines of Rs. 11.2 crore as on the same date. Against the same, the company has no long-term debt repayments for FY2024, while capex of Rs. 15-20 crore in FY2024 is expected to be funded jointly by incremental term debt and internal accruals. 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 also 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 the 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

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 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 subcontinent and nearby regions. The company was initially set up with an annual manufacturing capacity of 2.3-million shock absorbers and 1-million gas spring units at Chakan (near Pune). The present annual manufacturing capacity stands at 3.2-million shock-absorbers and 1-million gas spring units.

Key financial indicators (audited)

MMASPL Standalone	FY2021	FY2022
Operating income	132.2	162.3
PAT	0.5	3.4
OPBDIT/OI	9.9%	9.8%
PAT/OI	0.4%	2.1%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	1.3	0.7
Interest coverage (times)	5.9	10.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Apr 27, 2023				
1	Fund based /non -fund based	Long-term and short term	15.00	11.2	[ICRA]A-(Stable)/ [ICRA]A2+	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	
2	Unallocated	Long-term	6.10	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	-	
3	Term Loans	Long-term	0.00	-	-	-	-	[ICRA]A-(Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based / Non-fund Based	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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	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)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 022 61143400

kinjal.shah@icraindia.com

Sruthi Thomas

+91 124 4545 822

sruthi.thomas@icraindia.com

Karan Punjabi

+91 22 61693358

karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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