May 31, 2024

Mahindra Accelo Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based working capital facilities	5.0	7.5	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Short-Term Non-Fund-Based Limits	600.0	647.5	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Long-Term Interchangeable^	(84.5)	(112.0)	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Long-Term/Short-Term Unallocated	70.0	30.0	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Total	**675.0**	**685.0**	

**Instrument details are provided in Annexure-I; ^Cash credit facility is sublimit of non-fund based limit*

Rationale

While analysing Mahindra Accelo Limited (MAL), ICRA has consolidated the financials of MAL and its six subsidiaries owing to their common management, operational linkages and the need-based funding support that MAL extends to them.

The ratings reaffirmation continues to reflect MAL's strong financial, operational, and managerial linkages with its ultimate parent company, Mahindra & Mahindra Limited (M&M; rated [ICRA]AAA (Stable) / [ICRA]A1+), and its strategic importance to M&M's automotive division as the captive supplier of steel blanks, meeting 60-65% of M&M's requirements for its passenger vehicles. The company has plans to further strengthen its value-added products in the automotive segment, catering to the Group companies as well as other OEMs. The ratings also factor in the high likelihood of M&M extending financial support to MAL, should there be a need, because of close business linkages between them. Besides the automotive segment, the company enjoys an established presence in the electrical steel processing segment. The ratings continue to derive comfort from MAL's comfortable financial risk profile, as evident from its cash surplus operations and strong liquidity position, underpinned by healthy cash and bank balances along with liquid investments and unutilised bank lines.

The ratings, however, remain constrained by MAL's exposure to cyclical end-markets (automotive and electrical segments), as reflected by the volatility in its return indicators and stiff competition in the steel processing business. This was evident in its performance in the recent fiscals, when the company's revenues declined by 31% in FY2021, followed by a steep growth of 130% in FY2022, in line with demand from end-user industries and variations in steel prices. The momentum continued in FY2023 and FY2024 (provisional) with a YoY revenue growth of 37% and 11%, respectively.

The company is exposed to competition from other steel processing players, which limits its pricing power to an extent. However, its established market position in electrical steel, as a major supplier to M&M and its strong relationships with key customers mitigate this risk to an extent. ICRA, will continue to monitor the sustenance of MAL's growth momentum as well as its ability to maintain or improve its margins through better product mix and operating leverage benefits, which remain critical from the credit perspective. Additionally, MAL's ability to scale up smaller subsidiaries to a meaningful size and profitability to support its return indicators at consolidated levels remain a critical monitorable.

The Stable outlook reflects ICRA's expectation that MAL will continue to benefit from its linkages with the Mahindra Group and the associated financial support and flexibility. ICRA also expects MAL's credit profile to remain comfortable over the medium term, supported by comfortable cash accruals and healthy cash and bank balances as well as liquid investments.

Key rating drivers and their description

Credit strengths

Strong parentage as a wholly-owned subsidiary of M&M; captive steel service centre (SSC) for M&M's automotive business – MAL enjoys strong financial, operational and managerial linkages with M&M for being its wholly-owned subsidiary. MAL primarily operates as a captive steel service centre (SSC) for M&M's automotive business, wherein it converts cold rolled steel coils into processed steel blanks for M&M's utility vehicles (UVs) and passenger cars, meeting 60-65% of M&M's requirements. MAL's board of directors also includes senior personnel from the Mahindra Group's executive board. The ratings assigned to MAL factors in the high likelihood of M&M extending financial support to it, should there be a need. Moreover, MAL enjoys strong financial flexibility as it is a part of the Mahindra Group.

Leading player in the domestic electrical steel processing segment – MAL has an established market position as well as strong relationships with companies in the home appliances and capital goods segments (particularly transformers). It is the leading supplier of processed CRGO steel for power transformers.

Strong financial risk profile and liquidity – Aided by healthy accruals in the past, MAL has maintained limited dependence on external borrowings and has been operating as a cash surplus company. The financial profile is adequately supported by its free cash and bank balances as well as liquid investments of ~Rs. 16 crore (as on March 31, 2024 - provisional) on a consolidated basis, against external debt of Rs. 371.7 crore (including lease liabilities of Rs. 91.9 crore). Moreover, the operational performance has been healthy in the recent past, supporting its cash flow generation and financial risk profile. Despite the expected increase in debt levels, ICRA notes that the new capex plans will be for more value-added products, which will be utilised by the parent group as well as other OEMs. While the performance, on a consolidated basis, is expected to remain healthy in FY2025 as well, the sustainability of the growth momentum (including the expected revenue from value added products) and margins will be monitored from a credit perspective.

Credit challenges

Susceptibility to cyclicality in end-user sectors – MAL is exposed to cyclical end-markets (automotive and electrical segments), as reflected in volatility in its return indicators over the past couple of fiscals. Its revenues declined by 2% and 31% in FY2021 and FY2020, respectively, followed by a steep growth of 131% in FY2022, which moderated to 37% in FY2023 and 11% in FY2024 (provisional), in line with demand from end-user industries and volatility in steel prices.

Exposure to competitive pressures in steel processing industry – The company is engaged in steel processing, which is a highly competitive segment, thereby constraining its OPM. However, its established market position in electrical segment as well as strong relationships with key customers mitigate this risk to an extent.

Smaller subsidiaries yet to scale up to meaningful size and profitability to support return indicators – Though the company has the first mover advantage in licensed recycling scrap business, given the nascent stage of operation for this as well as electrical steel business in Indonesia (which commenced operations from January 2022), they are yet to achieve a meaningful scale and size to generate commensurate returns to support the consolidated numbers. At a consolidated level, the RoCE remains lower than the standalone level. MAL's ability to scale up these smaller subsidiaries to a meaningful scale and size will remain critical for its financial profile at a consolidated level.

Liquidity position: Strong

MAL's liquidity profile is strong, underpinned by the financial flexibility enjoyed by the company for being a part of the Mahindra Group. ICRA expects that the cash accruals from the business (Rs. 200-250 crore annually at the consolidated level) and free cash and liquid investments of Rs. 15.9 crore as on March 31, 2024 are expected to remain adequate for debt servicing. Further, Mahindra Accelo Ltd., MSSCL and MASPL together had unutilised fund-based limits of more than Rs. 120 crore as on

December 31, 2023, which further support the liquidity profile. These will be sufficient to service the debt repayment (scheduled) on a consolidated basis and annual planned capex over the medium term.

Rating sensitivities

Positive factors – MAL's rating may be upgraded if there is a substantial scale-up in revenues, along with greater sector and client diversification, while maintaining its current strong credit profile. Improvement in ROCE to above 25% on a sustained basis, would also be a positive rating factor.

Negative factors – MAL's ratings may be downgraded if there is any weakening in the credit profile of M&M and/or weakening in the operating performance of MAL due to sustained volume degrowth in its end-user segments. Any large debt-funded capex or weakening of its liquidity position, which may adversely impact its credit profile will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Parent / Group Company: Mahindra & Mahindra Limited (M&M) The ratings assigned to MAL factors in the high likelihood of its parent, M&M [rated [ICRA]AAA (Stable) / [ICRA]A1+] extending financial support to it because of close business linkages between them. ICRA also expects M&M to be willing to extend financial support to MAL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on MAL's consolidated financial profile, for which ICRA has consolidated the financials of MAL and its six subsidiaries—all enlisted in Annexure 2. The consolidated financials have not been prepared by the company, as these entities are consolidated at the M&M level and, accordingly, the key financial indicators on a consolidated level are not disclosed in the rationale.

About the company

Mahindra Accelo Limited (formerly known as Mahindra Intertrade Limited, or MIL) is a wholly-owned subsidiary of Mahindra & Mahindra Limited and was incorporated in 1978 as the Mahindra Group's trading arm to meet M&M's steel requirements in its automotive business. In 1993, the company entered the SSC business for meeting the requirements of M&M's automotive division. It further expanded its capacities in 2000 to diversify its business model by entering the electrical steel processing segment.

MAL operates through two business segments, SSC as well as metals and ferrous alloys (MFA), with SSC driving the bulk of the business (accounting for 65% of standalone revenues in FY2023). MAL operates here as a captive SSC for M&M's automotive business, wherein it converts hot rolled (HR)/ cold rolled (CR) steel coils into processed steel blanks for M&M's utility vehicles (UVs) and passenger vehicles (PVs). Besides meeting M&M's entire requirements, MAL also supplies CRGO steel laminations to the electrical segment, mainly covering the transformer industry and consumer durables. The MFA segment largely purchases and sells ferrous alloys (used in steel manufacturing) and alloy steel.

MAL has six subsidiaries, the key ones being MSSCL (rated [ICRA]AA-(Stable)/ [ICRA]A1+) and MASPL (rated [ICRA]AA- (Stable)/ [ICRA]A1+). While MSSCL processes automotive and electrical steel, MASPL manufactures steel blanks, rectangles, trapezoids and profiles for automobile manufacturers. Other subsidiaries are currently small in scale, and do not contribute materially to the consolidated top line and EBITDA.

Key financial indicators (audited)

MAL – Standalone	FY2022	FY2023	FY2024*
Operating income	2,451.3	3,231.5	3,340.8
PAT	143.9	113.1	133.0
OPBDIT/OI	8.2%	5.2%	5.3%
PAT/OI	5.9%	3.5%	4.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.7	0.7
Total debt/OPBDIT (times)	0.0	0.0	0.4
Interest coverage (times)	79.1	17.0	14.9

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 31, 2024	-	Mar 28, 2023	Feb 14, 2022
1	Fund-Based working capital facilities	Long term	7.5	--	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Non-Fund-Based Limits	Short term	647.5	--	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Interchangeable	Long term	(112.0)	--	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Unallocated	Long term/Short term	30.0	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund-Based working capital facilities	Simple
Short-Term Non-Fund-Based Limits	Very Simple
Long-Term Interchangeable	Very Simple
Long-Term/Short-Term 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	**Long-Term Fund-Based working capital facilities**	NA	NA	NA	7.5	**[ICRA]AA+ (Stable)**
NA	**Short-Term Non-Fund-Based Limits**	NA	NA	NA	647.5	**[ICRA]A1+**
NA	**Long-Term Interchangeable**	NA	NA	NA	(112.0)	**[ICRA]AA+ (Stable)**
NA	**Long-Term/Short-Term Unallocated**	NA	NA	NA	30.0	**[ICRA]AA+ (Stable)/ [ICRA]A1+**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mahindra Steel Service Centre Limited (Pune, Bhopal & Chennai)	61.0%	Full Consolidation
Mahindra Middle East Electrical Steel Service Centre (Sharjah)	90.0%	Full Consolidation
Mahindra Auto Steel Private Limited (Pune)	75.5%	Full Consolidation
Mahindra Electrical Steel Private Limited	100.0%	Full Consolidation
PT Mahindra Accelo Steel Service Indonesia	100.0%	Full Consolidation
Mahindra MSTC Recycling Co.	50.0%	Full Consolidation

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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.

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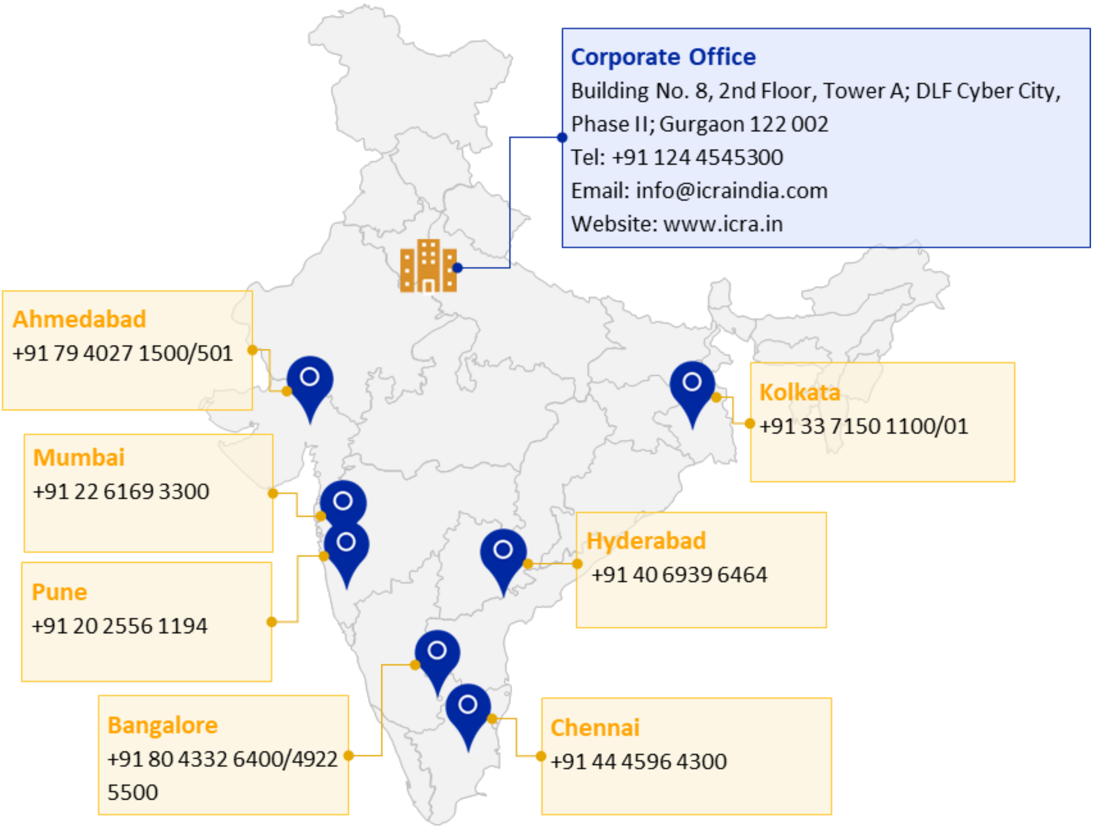

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