No. CARE/DRO/RR/2018-19/2012

Mr. Davendra Ujlayan
VP Finance
Shivam Autotech Limited
58th KM Stone,
Delhi-Jaipur Highway,
Village Binola, Distt. Gurgaon - 122413

February 13, 2019

Dear Sir,

Credit rating of bank facilities

Please refer to our letters dated February 12, 2019 on the above subject.

2. The rationale for the ratings is attached as an **Annexure-I**.

3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 15, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

[Shivangi Sharma]
Deputy Manager
shivangi.sharma@careratings.com

[Manek Narang]
Associate Director
manek.narang@careratings.com

Encl.: As above

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CIN-L67190MH1993PLC071691

Annexure I

Rating rationale

Shivam Autotech Limited (SAL)

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term facilities	517.93 (enhanced from Rs.483.23 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term facilities	28.00 (reduced from Rs.29 crore)	CARE A2+ (A Two Plus)	Reaffirmed
Total facilities	**545.93 (Rupees Five Hundred and Forty Five crore and Ninty Three lacs only)**		

Rating Rationale

The ratings of the bank facilities of Shivam Autotech Limited (SAL) continue to derive strength from the experienced and resourceful promoters, favourable location of plants, strong operational linkages and long-standing relationship with its major customer. The ratings also take cognizance of significant increase in revenues and improvement in profitability at PBILDT levels, though with a loss at net levels

The ratings, however, remain constrained by moderated solvency and debt coverage indicators on account of debt funded capex in the past. 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.

Background

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 divisions were 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.

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

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Credit Risk Assessment

Experienced promoters

SAL is part of the Satyanand Munjal Group (Late Mr Satyanand Munjal was brother of Late Mr BrijMohan Lall Munjal) 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 Mr Brijmohan Lall Munjal) has a vast experience in the 2-W industry. He was also previously the Joint Managing Director of HML. The promoters i.e. Munjal family holds 74.80% stake in SAL through Dayanand Munjal Investments Pvt Ltd as on Sep 30, 2018. Mr. Yogesh Munjal (MD of Munjal Showa Ltd and son of Late Mr Satyanand Munjal) controls Dayanand Munjal Investments Pvt Ltd. Dayanand Munjal Investments Pvt Ltd owns 39% stake in Munjal Showa Ltd.

Mr Neeraj Munjal (son of Mr.Yogesh Munjal), Managing Director has almost two decades of experience in the auto component sector. Mr Munjal 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 67% of revenue in FY18. On the other hand, HML is also dependent on SAL for procurement of gears and 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.

New Product line: Combined braking system (CBS)

SAL has started manufacturing products with CBS at their Manesar and Haridwar plant. The sales for CBS is expected to start from March 2018 onwards and is likely to result in additional sales Rs. 10 cr every month March 2018 onwards.

Moderate financial risk profile

SAL has been expanding its capacity in recent past in order to meet the demands of HML 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. Moreover, with high debt facilities availed, the overall gearing stepped up from 2.10x on 31-Mar-17 to 2.19x on 31-Mar-18. The installed capacity increased from 933.23 lppa as on March 31, 2017 to 987.35 lppa as on March 31, 2018. During FY18, SAL achieved y-o-y growth of 22% in total operating income to Rs. 556.78 cr mainly driven by improved industry scenario. PBILDT margin improved significantly to 14.09% in FY18. With higher depreciation cost (due to commissioning of Bengaluru and Rohtak plant) and higher interest cost (for funding Bengaluru and Rohtak), the company incurred net loss of Rs.1.23 cr in FY18 against net loss of Rs.3.60 cr in FY17. However, the company continued to earn cash profit (FY18: Rs.33.22 cr; PY: Rs.18.93 cr).

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The company achieved 13% y-o-y growth in total operating income to Rs. 464.88 cr (9MFY18: Rs. 410.74 cr). Also during 9MFY19, the PBILDT and PAT stood at Rs. 66.62 cr and Rs. 0.43 cr respectively.

Liquidity: The liquidity profile is marked by high working capital utilization of around 98% during 12m period ending 30-Nov-18. The current ratio stood at 0.70x as on 31-Mar-18. The company has been relying on bank funds in order to fund its working capital requirements leading to lower current ratios. The prudent working capital management would be crucial. The company also has option of customer invoice discounting of its key customers to ease the working capital requirements.

Revenue concentration; mitigated by established relationship with the key customer

SAL derives majority of its revenue from single client: HML. During FY18, SAL derived 67% of its revenue from HML 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 7.5 million units and has dominant position in domestic motorcycle and 2-W market. During FY18, the HML reported PAT of Rs.3,697 cr (PY: 3,546) on total income of Rs.33,398 cr (PY: 31,480).

Moreover, the company is also diversifying its customer concentration gradually and has now been focusing on new products and heavy industrial goods companies. The two new plants (Bengaluru and Rohtak) 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 2-3 months. The operating cycle of the company remains between 70-80 days. The working capital utilization usually remains high (avg: 96%, max: 98% during 12m period ending 30-Nov-18).

Cyclical nature of the industry and competition

The automobile industry is inherently vulnerable to the economic cycles and is sensitive to the interest rates and fuel prices. The company thus faces significant risks associated with the dynamics of the auto industry. Besides, the industry is competitive in nature as there are large numbers of players operating in the market.

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Financial Performance (Rs. Crore)

For the period ended / as at Mar.31,	2016 (12m, A)	2017 (12m, A)	2018 (12m, A)
Working Results			
Total Operating income	424.12	455.69	556.78
PBILDT	70.49	47.62	78.43
Depreciation	27.85	32.20	41.27
Interest	21.47	29.03	45.70
PBT	21.48	(13.27)	(7.57)
PAT (after deferred tax)	19.24	(3.60)	(1.23)
Gross Cash Accruals	47.57	18.93	33.22
Financial Position			
Equity Capital	20.00	20.00	20.00
Networth	199.58	190.40	188.55
Total capital employed	503.75	589.69	601.02
Key Ratios			
Growth			
Growth in Total income (%)	-4.87	7.44	22.18
Growth in PAT (after D.Tax) (%)	-31.62	-118.72	65.81
Profitability			
PBILDT/Total Op. income (%)	16.62	10.45	14.09
PAT (after deferred tax)/ Total income (%)	4.53	(0.79)	(0.22)
ROCE (%)	9.66	2.82	6.24
Solvency			
Long Term Debt Equity ratio (times)	1.00	1.33	1.39
Overall gearing ratio (times)	1.52	2.10	2.19
PBILDT Interest coverage (times)	3.28	1.64	1.72
PBIT Interest coverage (times)	1.99	0.53	0.81
Term debt/Gross cash accruals (years)	4.19	13.38	7.91
Total debt/Gross cash accruals (years)	6.39	21.09	12.42
Liquidity			
Current ratio(times)	0.88	0.78	0.70
Quick ratio(times)	0.43	0.42	0.40
Turnover			
Average collection period (days)	41	46	49
Average inventory period (days)	87	82	71
Average creditors (days)	54	54	50
Operating cycle (days)	74	74	70

A: Audited

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Details of Rated Facilities

1. Long-term facilities

1.A. Rupee Term loan (Rs. crore)

S. No.	Banker / lender	Amount (Rs. Cr)	Remarks
1.	Kotak Mahindra Bank	24.25	20 equal quarterly installment wef 31.12.2016
2.	Yes Bank Ltd	44.00	Quarterly installment wef 02.03.2018
3.	IDFC Bank Ltd	73.25	Quarterly/Monthly installment wef 18.08.2017
4.	Yes Bank Ltd	50.00	Quarterly installment wef 01.10.2018
5.	Hero Fincorp Ltd	4.31	36 equal Monthly installment wef 14.08.2016
6.	Hero Fincorp Ltd	17.12	36 equal Monthly installment wef 08.08.2017
7.	Hero Fincorp Ltd	25.00	8 equal Monthly installment wef 03.07.2019
8.	Yes Bank Ltd	100.00	Quarterly installment wef June,2020
	Total	337.93	

1.B. Fund-based limits (Rs. crore)

Sr. No.	Name of Bank	Fund Based Limits	
		Cash Credit	Total fund-based limits
	Kotak Mahindra Bank	35.00	35.00
	Yes Bank Ltd	70.00	70.00
	IDFC Bank Ltd	40.00	40.00
	Hero Fincorp	35.00	35.00
	TOTAL	180.00	180.00

2. **Short-term facilities**

2.A. Non fund based limits (Rs. crore)

Sr. No.	Name of Bank	Non Fund Based Limits		Total
		LCs/ BGs*	Others	
	IDFC Bank Ltd	10.00	-	10.00
	Yes Bank Ltd	10.00	-	10.00
	Kotak Mahindra Bank	8.00	-	8.00
	TOTAL	28.00	-	28.00

*LC=Letter of credit; BG=Bank guarantee

Total facilities: Rs.545.93 crore

Analyst Contact:
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