No. CARE/DRO/RL/2022-23/1952

Shri Neeraj Munjal
Director
Shivam Autotech Limited
Tower A,10,
1st Floor, Emaar Digital Greens, Sector-61,
Gurgaon
Haryana 122001

September 26, 2022

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY22 (Audited) and Q1FY23 (Unaudited), and the possible impact of the same on the credit profile of your company our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**372.86**	**CARE B; Stable (Single B; Outlook: Stable)**	**Revised from CARE D (Single D); Stable outlook assigned**
Short Term Bank Facilities	**10.00**	**CARE A4 (A Four)**	**Revised from CARE D (Single D)**
Total Facilities	**382.86 (Rs. Three Hundred Eighty-Two Crore and Eighty-Six Lakhs Only)**		

2. Refer **Annexure 1** for details of rated facilities.
3. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. 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 September 27, 2022, we will proceed on the basis that you have no any comments to offer.
4. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

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the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. Our ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.
9. CARE Ratings Ltd. ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Sunidhi Vyas

Puneet Kansal

Sunidhi Vyas
Lead Analyst
sunidhi.vyas@careedge.in

Puneet Kansal
Associate Director
puneet.kansal@careedge.in

Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 1

Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	Yes Bank Ltd.	58.50	Repayable in 24 quarterly instalments beginning from June 2020
2.	Yes Bank Ltd.	41.00	Repayable in 48 Monthly Equal instalments beginning from March 2022
3.	Yes Bank Ltd.	27.16	Repayable in 24 quarterly instalments beginning from December 2018
4.	IDFC First Bank Ltd.	16.40	Repayable in 48 Monthly Equal instalments beginning from April 2022
5.	HDFC Bank Ltd.	12.18	Repayable in 48 monthly instalments beginning from October 2020
6.	Yes Bank Ltd.	12.00	Repayable in 22 quarterly instalments beginning from June,2018
7.	Hero FinCorp Ltd.	11.09	Repayable in 48 Monthly Equal instalments beginning from April 2022
8.	HDFC Bank Ltd.	11.00	Repayable in 48 Monthly Equal instalments beginning from April 2022
9.	IDFC First Bank Ltd.	10.00	
10.	IDFC First Bank Ltd.	9.27	Repayable in 66 Monthly Equal instalments beginning from May 2019
11.	IDFC First Bank Ltd.	8.67	Repayable in 49 Monthly Equal instalments beginning from Oct 2018
12.	IDFC First Bank Ltd.	5.76	Repayable in 18 quarterly instalments beginning from August 2017
	Total	**223.03**	

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Yes Bank Ltd.	35.00
2.	IDFC First Bank Ltd.	30.00
3.	HDFC Bank Ltd.	17.50
4.	Hero FinCorp Ltd.	7.50
	Total	**90.00**

1.C. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	Yes Bank Ltd.	32.67	Repayable in 60 Monthly Equal installments beginning from September,2021
2.	Hero FinCorp Ltd.	27.16	Repayable in 60 monthly instalment beginning from Nov 2021

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Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
	Total	**59.83**	

Total Long Term Facilities : Rs.372.86 crore

2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Yes Bank Ltd.	10.00
	Total	**10.00**

Total Short Term Facilities : Rs.10.00 crore

Total Facilities (1.A+1.B+1.C+2.A) : Rs.382.86 crore

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Annexure 2
Draft Press Release
Shivam Autotech Limited

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[2]	Rating Action
Long Term Bank Facilities	372.86	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE D (Single D); Stable outlook assigned
Short Term Bank Facilities	10.00	CARE A4 (A Four)	Revised from CARE D (Single D)
Total Bank Facilities	**382.86 (₹ Three Hundred Eighty-Two Crore and Eighty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Shivam Autotech Limited (SAL) factors in the track record of timely servicing of repayment obligations of financial institutions for more than 3 months. The ratings further derive strength from the experienced promoters with long track record of operations and favourable location of the plant. The ratings also take cognisance of the improvement in operational and financial risk profile during FY22 (refers to the period from April 1 to March 31) and fund infusion by promoters through rights issue. However, the ratings are constrained by the company's leveraged capital structure, weak debt coverage indicators and working capital intensive nature of operations leading to poor liquidity position. The ratings also remain constrained by the revenue concentration risk towards few customers, low bargaining power with customers, susceptibility to volatile raw material prices and cyclical nature of auto sector.

Rating sensitivities
Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in capital structure with overall gearing of less than 1.75x
- improvement in total debt/GCA below 10x
- Improvement in profitability leading to adequate cash generation sufficient to meet debt obligations
- Better management of working capital cycle and lower utilisation of working capital limits leading to improvement in liquidity position

Negative factors – Factors that could lead to negative rating action/downgrade:

- Delay in repayment of debt obligations or overutilization of working capital limits for more than 30 days

Detailed description of the key rating drivers

Key rating weaknesses

Leveraged capital structure and weak debt coverage indicators

The company has leveraged capital structure and weak debt coverage indicators. The overall gearing of the company has improved to 2.81x as on March 31, 2022 from 4.34x as on March 31, 2021, however the same continued to remain high. The improvement was largely on account of infusion of equity amounting to Rs. 40 crores by way of rights issue and scheduled repayment of loans along with lower utilisation of working capital.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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The debt coverage indicators however, continue to be weak on account of loss-making operations. Total debt/GCA of the company stood at 15.65x for FY22 (PY: 21.57x). The high debt leads to significant repayment obligations at Rs. 73.70 crores for FY23 which are unable to be met by cash accruals of the company. The repayments are hence, expected to be supported by fresh borrowings and support from the promoter in the form of unsecured loans.

Weak financial risk profile

During FY22, the company reported stable total operating income of Rs. 469.20 crores (PY: Rs. 489.20 crore). The company has also been able to sustain the PBILDT margin at 15.19% in FY22 as against 16.28% in FY21. Further, on account of lower depreciation and interest cost the company reported decreased loss than previous year. SAL reported a loss of Rs. 16.06 crores during FY22 decreased from Rs. 22.53 crores in FY21.

During Q1FY23, the company reported income of Rs. 118.71 crores with a sustained PBILDT margin of 15.15%

Revenue concentration risk

SAL derives majority of its revenue from single client: Hero MotoCorp Limited (HML). HML contributes around 60% of revenue of SAL. Further, majority of its products manufactured such as gears and shafts find its usage in two wheelers. As a result, SAL is exposed to customer concentration as well as segment concentration risk.

Low bargaining power with customers and susceptibility of margins to volatility in raw material prices

Though there exists limited bargaining power with the customers, since the major customers are auto companies/OEMs, however, the company does have a mechanism wherein any revision in the raw material prices is reset by the OEMs on monthly basis and the change in the raw material prices are accommodated subsequently. The major raw material (Steel) cost accounts for around 50% of total operating income, furthermore, global prices for steel are volatile which exposes SAL to price risk.

Cyclical nature of the automotive industry

The automobile industry is highly cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is highly competitive with the presence of a large number of players in the organized as well as unorganized sector

Key rating strengths

Experienced promoters

SAL is part of the Satyanand Munjal Group (Late Mr Satyanand Munjal was brother of Late Mr BrijMohan Lal Munjal) and was started in 1999 to meet the requirements of HML's component requirements. Subsequently in 2005, SAL was hived off from Munjal Auto Industries Ltd with focus on the forging and machinery division.

The company's Chairman, Mr. Sunil Kant Munjal (son of Late Mr. Brijmohan Lal Munjal) has a vast experience in the two-wheeler industry. Mr. Neeraj 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's 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 60% of sales. 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.

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Liquidity: Poor

The liquidity position of the company is poor as total debt level of the company is high owning to significant capex done in the past, leading to increasing repayment obligations. The projected gross cash accruals of around Rs. 50 crore is not sufficient to meet the repayment obligations for FY23 which stands at Rs. 73.70 crore. The repayments are expected to be supported by fresh borrowings or unsecured loan from promoters. Historically, the company has been making repayments by stretching its creditors. The average credit period stood at 69 days in FY22. The company relies heavily on bank funds for its working capital requirements which remains almost fully utilised.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy On Curing Period
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies

About the company

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 four plants located in Gurgaon, Haridwar, Bengaluru and Rohtak.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	489.20	469.20	118.71
PBILDT	79.63	71.26	17.98
PAT	-22.53	-16.06	-3.20
Overall gearing (times)	4.34	2.81	NA
Interest coverage (times)	1.40	1.41	1.48

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

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Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30/11/2026	223.03	CARE B; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A4
Fund-based - LT-Cash Credit		-	-	-	90.00	CARE B; Stable
Fund-based - LT-Working Capital Limits		-	-	-	59.83	CARE B; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	223.03	CARE B; Stable	-	1)CARE D (23-Feb-22)	1)CARE D (25-Nov-20) 2)CARE BB; Negative (06-Oct-20) 3)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Negative (17-Feb-20) 2)CARE BBB; Negative (20-Aug-19)
2	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4	-	1)CARE D (23-Feb-22)	1)CARE D (25-Nov-20) 2)CARE A4 (06-Oct-20) 3)CARE A3 (22-May-20)	1)CARE A3+ (17-Feb-20) 2)CARE A2 (20-Aug-19)
3	Fund-based - LT-Cash Credit	LT	90.00	CARE B; Stable	-	1)CARE D (23-Feb-22)	1)CARE D (25-Nov-20) 2)CARE BB; Negative (06-Oct-20) 3)CARE BBB-; Negative (22-May-20)	1)CARE BBB-; Negative (17-Feb-20) 2)CARE BBB; Negative (20-Aug-19)
4	Fund-based - LT-Working Capital Limits	LT	59.83	CARE B; Stable	-	1)CARE D (23-Feb-22)	-	-

*Long term/Short term.

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Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Puneet Kansal
Phone: 91-11-4533 3225
E-mail: puneet.kansal@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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