



ICRA

ICRA Limited

CONFIDENTIAL

Ref: 2019-20/PUN/231

Date: January 20, 2020

Mr. K Jayaprakash

Chief Financial Officer
Mahindra CIE Automotive Limited
Mahindra Towers, 1st Floor,
Dr. G.M. Bhosale Marg, Worli,
Mumbai-400018

Dear Sir,

Re: ICRA Credit Rating for Rs. 590.00 crore Line of Credit of Mahindra CIE Automotive Limited (instrument details in Annexure)

Please refer the Rating Agreement dated March 09, 2017 and RRF No. Pun/2016-17/266 dated March 09, 2017 between ICRA Limited ("ICRA") and your company, whereby, ICRA is required to review the ratings assigned to your company on an annual basis or as and when the circumstances so warrant. Further, please refer to Rating Agreement dated December 30, 2019 RRF No. PUN/SECG/2019-20/18 dated December 19, 2019 seeking an enhancement of the captioned line(s) of Credit (LOC) of your company from Rs. 295.00 crore to Rs. 590.00 crore.

Please note that the Rating Committee of ICRA, after due consideration, has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) assigned earlier to the Rs. 295.00 crore Line of Credit of your Company and also assigned a long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) to the additional limit of Rs. 295.00 crore. The Outlook on the long-term rating is stable.

The aforesaid ratings will be due for surveillance any-time before December 31, 2020.

This rating is specific to the terms and conditions of the LOC as was indicated to us by you and any change in the terms or size of the same would require the rating to be reviewed by us. If there is any change in the terms and conditions or size of the LOC rated, as above, the same must be brought to our notice before the utilisation of the same. If there is any such change after the rating is assigned by us and confirmed for use by you, it would be subject to our review and may result in change in the rating assigned. Notwithstanding the foregoing, any change in the over-all limit of the LOC from that specified in the first paragraph of this letter would constitute an enhancement that would not be covered by or under the said Rating Agreement.

Sandhya

[Signature]

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ICRA reserves the right to review and/or, revise the above rating at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the rating assigned to you.

You are requested to furnish a monthly 'No Default Statement (NDS)' (as per enclosed format) on the first working day of every month, confirming timely payment of all obligations on the above

rated debt program [interest and principal obligations for fund based as well as obligations under LOC/BG for non-fund based facility]. This is in accordance with requirements prescribed by the Securities and Exchange Board of India ("SEBI") vide SEBI circular dated June 30, 2017.

You are also requested to forthwith inform us about any default or delay in repayment of interest or principal amount of the Programme rated, as above, or any other debt instruments / borrowings. Further you are requested to forthwith inform us of any other developments which may have a direct or indirect impact on the debt servicing capability of the company including any proposal for re-schedulement or postponement of the repayment programmes of the dues/ debts of the company with any lender(s) / investor(s).

The rating(s) assigned must be understood solely as an opinion and should not be treated, or cause to be treated, as recommendation to buy, sell, or hold the rated bank facility availed by your company.

We thank you for your kind cooperation extended during the course of the rating exercise. Please let us know if you need any clarification.

We look forward to further strengthening our existing relationship and assure you of our best services.

With kind regards,

For ICRA Limited

Sandhya Negi
Senior Analyst
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Ashish Modani
Vice President
Co-Head, Corporate Ratings
ashish.modani@icraindia.com



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Annexure

Details of Bank Limits Rated by ICRA (Rated on a Long-Term as well as Short-Term Scale)

Name of the bank	Facility	Amount (Rs. crore)	Rating	Rating Assigned on
ICICI Bank Limited	Fund based/ Non-Fund Based	245.00	[ICRA]AA- (Stable) & [ICRA]A1+	January 17, 2020
Kotak Mahindra Bank Limited		200.00		
Barclays Bank PLC		130.00		
Bank of Baroda		15.00		
Total		590.00		

Sandhya

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Date: January 20, 2020

Mr. K Jayaprakash
Chief Financial Officer
Mahindra CIE Automotive Limits
Mahindra Towers, 1st Floor,
Dr. G.M. Bhosale Marg, Worli,
Mumbai-400018

Dear Sir,

Re: Surveillance of ICRA rating for Rs. 200.00 crore Commercial Paper (CP) Programme of Mahindra CIE Automotive Limited

Please refer the Rating Agreement dated December 19, 2018 and RRF Number PUN/2018-19/108 dated December 19, 2018 between ICRA Limited ("ICRA") and your company, whereby, ICRA is required to review the ratings assigned to your company on an annual basis or as and when circumstances so warrant.

Please note that the Rating Committee of ICRA, after due consideration of the latest developments in your company, has **reaffirmed** the rating assigned to the aforementioned instrument at "[ICRA]A1+" (pronounced as ICRA A one plus). Instruments with [ICRA]A1 rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

Additionally, we wish to highlight the following with respect to the rating:

- (a) If the instrument rated, as above, is not issued by you within a period of 3 months from the date of this letter, the rating would need to be revalidated before issuance;
- (b) Subject to Clause (c) below, our rating is valid from the date of this letter till December 31, 2020 ("Validity Period"). The rating will generally be due for review at the end of the Validity Period. The maturity date of the Commercial Paper/CD/STD shall not be after the end of the Validity Period. The Commercial Paper/CD/STD will have a maximum maturity of twelve months.
- (c) ICRA reserves the right to review and/or, revise the above rating at any time on the basis of new information or unavailability of information or such circumstances, which ICRA believes, may have an impact on the aforesaid rating assigned to you.

The rating, as aforesaid, however, should not be treated as a recommendation to buy, sell or hold the Commercial Paper issued by you. **The above rating of "[ICRA] A1+" is assigned to your Commercial Paper size of Rs 200.00 crore and the maximum amount raised through Commercial Paper at any point in time, including any amount already outstanding,**

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should not exceed Rs 200.00 crore. In case, you propose to enhance the size of the Commercial Paper, the same would be required to be rated afresh. ICRA does not assume any responsibility on its part, for any liability, that may arise consequent to your not complying with any eligibility criteria, applicable from time to time, for issuance of Commercial Paper.

You are requested to furnish a monthly '*No Default Statement (NDS)*' (in the format enclosed) on the first working day of every month, confirming the timeliness of payment of all obligations against the rated debt programme. This is in line with requirements as prescribed in circular dated June 30, 2017 on '*Monitoring and Review of Ratings by Credit Rating Agencies (CRAs)*' issued by the Securities and Exchange Board of India..

You are also requested to forthwith inform us about any default or delay in repayment of interest or principal amount of the instrument rated, as above, or any other debt instruments/ borrowing and keep us informed of any other developments which may have a direct or indirect impact on the debt servicing capability of the company including any proposal for re-schedulement or postponement of the repayment programmes of the dues/ debts of the company with any lender(s) / investor(s). Further, you are requested to inform us immediately as and when the borrowing limit for the instrument rated, as above, or as prescribed by the regulatory authority(ies) is exceeded.

We thank you for your kind cooperation extended during the course of the rating exercise. Should you require any clarification, please do not hesitate to get in touch with us.

We look forward to further strengthening our existing relationship and assure you of our best services.

With kind regards,

For ICRA Limited

Sandhya Negi
Senior Analyst
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Ashish Modani
Vice President
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January 20, 2020

Mahindra CIE Automotive Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based/Non-Fund Based Facilities	Rs.295.00 crore	Rs.590.00 crore	[ICRA]AA-(Stable)/ [ICRA] A1+ reaffirmed/assigned
Commercial Paper	Rs.200.00 crore	Rs.200.00 crore	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to reflect Mahindra CIE Automotive Limited's (MCIE) large scale of operations; comfortable leverage and coverage indicators with gearing at 0.3 times and TD/OPBITDA at 1.4 times as on June 2019; and well diversified presence across geographies, automotive segments, products, end user industries including passenger vehicles (PV), commercial vehicles (CV), two-Wheelers (2W) and Off-Highway segments. MCIE is expected to continue to benefit from CIE Automotive SA's (CIE) strong technological expertise along with its established relationships with global OEMs. The rating strengths are partially offset by MCIE's subdued return indicators (RoCE) as compared to other peers in similar rating category primarily due to sub-par performance of the German forging business, and the inherent cyclicity in the global automotive industry.

Merger of Bill Forge Private Limited (BFPL) with standalone operations will result in improved synergies and, hence, profitability of the standalone operations though its overall impact on consolidated profile will be credit neutral. Recently acquired Aurangabad Electricals Limited (AEL) will help MCIE in entering Aluminum Die casting business which will further aid in diversification of business segments, product segment (aluminium casting) as well as that of client base. AEL's acquisition is expected to help Indian operation to report modest growth in CY2019, which otherwise could have witnessed over 15% decline in turnover. European business, which accounted for 58% of revenue during CY2018, is likely to witness muted growth amid slowdown in key geographies and weakness in the European CV market.

With expected cash accruals of Rs 700-900 crore annually, and capex of Rs 400-500 crore, the company's credit profile is expected to further strengthen over the medium term. ICRA expects the company to maintain its credit profile through its organic and/or inorganic investment plans; although ICRA would evaluate the impact of any such investments on the credit profile on a case-by-case basis. Any large debt-funded acquisition or greenfield expansion will remain a key rating sensitivity for the firm. ICRA expects MCIE's credit profile to benefit from various cost rationalization and productivity improvement measures in India as well as overseas business; and the firm's focus on improving its product, segmental as well as customer mix along with better asset utilisation. With expected improvement in cash accruals and modest debt repayment obligations, the cash flow position of the company is expected to remain comfortable.

Key rating drivers

Credit strengths

Operational & managerial support from CIE Automotive SA; Synergies derived from CIE's global operations— CIE enjoys a global automotive footprint across multiple product segment (forgings/castings/stamping). Moreover, MCIE enjoys strategic importance for CIE's global operations as the auto component division for South Asian and South East Asian markets. MCIE is expected to benefit from CIE's strong technological expertise along with established relationships with global OEMs. MCIE has a medium-term plan to introduce CIE's products (such as plastics) to the Indian market, which will further help in diversifying its product portfolio and client base.

Large scale of operations; amongst top auto component suppliers in India – In terms of revenue, MCIE is amongst the largest auto components suppliers in India. In Europe, company is one of the leading forgings suppliers for PV, CV and off-highway segment.

Well diversified operations in terms of technology divisions, geographical reach, industry segments as well as client base – MCIE is present across six business segments—forging, stamping, casting, gears, composite and magnetic products. Its six business divisions are spread across passenger vehicles, commercial vehicles, tractors, two-wheelers and off-road segments. MCIE is well diversified in terms of geographical revenue base, which mainly includes India (42%) and Europe (58%) and also in terms clients.

Comfortable capital structure and coverage metrics – Despite multiple acquisitions in recent time, MCIE’s leverage and coverage indicators remain comfortable with gearing of 0.3x and TD/OPBIDTA of 1.4 times. With expected cash accruals of Rs 700-900 crore and capex of Rs 400-500 crore annually, the company’s credit profile is expected to strengthen over the medium term.

Credit challenges

Subdued profitability due to sub-optimal capacity utilisation in German forging business – Though the operational performance of its European PV forging business has witnessed a steady improvement over the years, MCIE’s German operations reflect below par performance, dragging the overall return indicators (RoCE of ~12% on a consolidated basis). Nevertheless, there has been steady improvement in profitability, supported by ramp-up in Indian operations as well as European subsidiaries (especially in Lithuania and Italy).

Exposure to the cyclical in the automotive industry, both in domestic as well as overseas markets – The auto-supplier industry remains vulnerable to the cyclical inherent in the automotive industry and the pricing pressures that auto-suppliers face from large OEMs.

Liquidity position: Strong

Company’s liquidity profile is strong, supported by adequate undrawn bank facilities as well as cash and liquid investments of over Rs. 250 crore on a consolidated basis, as on June 2019. As per the management, at a consolidated level, MCIE has more than Rs. 600 crore unutilised bank lines, which adds to the liquidity and financial flexibility available with the company. MCIE is expected to continue to generate healthy cash flows from the business, which will further strengthen its liquidity profile over the medium term, in absence of any major capex/investment plan.

Rating sensitivities

Positive triggers – Positive trigger for MCIE’s rating will be in case of substantial improvement in asset utilization and return indicators, with core RoCE more than 15% along with sustainable improvement in its scale of operations and capital structure (Net debt /OPBIDTA below 1.5 times on sustained basis), along with a more diversified customer portfolio.

Negative triggers – Negative pressure on MCIE’s rating could arise in case of deterioration operating profitability or large debt funded investments such that net debt/OPBIDTA exceeds 2.25x on sustain basis. Also, consistently negative asset liability mismatch could put downward pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	-
Consolidation/Standalone	Consolidated - For arriving at the ratings, ICRA has considered the consolidated financials of MCIE. As on December 2019, the company had five subsidiaries and 12 step-down subsidiaries who are all listed in Annexure-2

About the company

Mahindra CIE Automotive Limited is part of the global auto component player, CIE Automotive Group, based out of Spain. MCIE was earlier known as Mahindra Forgings Limited (part of Mahindra Systech Division) and was later renamed, following the integration of the Mahindra Group's Systech business with CIE's operations, which was announced in 2013.

Mahindra Systech, a division of Mahindra & Mahindra, was created in 2004 to capitalise on the opportunities presented by the growth of the Indian automobile component industry. The Systech division was formed through the amalgamation of some existing Mahindra Group companies combined with a series of acquisitions in India and Europe. The Systech auto component division (comprising multiple companies, listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites. Apart from its strong presence in forgings, MCIE is also among the largest ductile iron casting and compression moulded auto components manufacturers in India. Its standalone operations consist of six product segments—forgings, castings, stampings, composites, magnetic products and gears. Following the acquisition of BFL in CY2016, MCIE also gained strong traction in precision forged and machined automotive components for domestic two-wheeler and passenger vehicle segments. Its European operations, especially for MFE and CIE Galfor, consists of forged components, while Metalcastello is primarily engaged in the gears segment. On March 12, 2019, Board of Directors of the firm approved the acquisition of 100% of the issued and outstanding share capital of Aurangabad Electricals Limited (AEL) and authorized the signing of a share purchase agreement.

Key financial indicators (audited)

Consolidated	CY2017	CY2018
Operating Income (Rs. crore)	6,520	8,032
PAT (Rs. crore)	358	549
OPBDIT/OI (%)	12.5%	13.1%
RoCE (%)	12.0%	15.1%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDIT (times)	1.5	1.5
Interest Coverage (times)	14.9	20.9

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated	Amount Outstanding*	Date & Rating in FY2020 January 2020	Date & Rating in FY2019 January 2019	Date & Rating in FY2019 August 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017
1 Fund-based/Non-Fund Based Facilities	Long-term	590.00	68.68	[ICRA]AA-(Stable)/[ICRA] A1+	[ICRA]AA-(Stable)/[ICRA] A1+	[ICRA]AA-(Stable)/[ICRA] A1+	[ICRA]AA-(Stable)/[ICRA] A1+	-
2 Commercial Paper	Short-term	Rs.200.00 crore	Rs.0.00 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Source: The company; Note*: Fund based Amount outstanding as on December 2019.

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund-based/Non-Fund Based Facilities	-	NA	-	590.00	[ICRA]AA-(Stable)/[ICRA] A1+
NA	Commercial Paper	-	NA	-	200.00	[ICRA]A1+

Source: The company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership**	Consolidation Approach
Stokes Group Limited (SGL)	100%	Full Consolidation
Stokes Forgings Dudley Limited	100%	Full Consolidation
Stokes Forgings Limited	100%	Full Consolidation
CIE Galfor, S.A.U. (Galfor)	100%	Full Consolidation
Mahindra Forgings Europe AG (MFE)	100%	Full Consolidation
Jeco Jellinghaus GmbH	100%	Full Consolidation
Gesenschmiede Schneider GmbH	100%	Full Consolidation
Falkenroth Unformtechnik GmbH	100%	Full Consolidation
Schoneweiss& Co GmbH	100%	Full Consolidation
Metalcastello S.p.A (MC)	99.96%	Full Consolidation
CIE Legazpi SA	100%	Full Consolidation
UAB CIE LT Forge	100%	Full Consolidation
Galfor Eólica, S.L	25%	Full Consolidation
AE Deutschland GmbH (w.e.f. April 9, 2019)	100%	Full Consolidation
BF Precision Private Limited	100%	Full Consolidation
Bill Forge Mexico, S.A de C.V	100%	Full Consolidation

Gescrap India Private Limited (associate w.e.f. March 27, 2018)	30%	Full Consolidation
Aurangabad Electricals Limited (AEL) (w.e.f. April 9, 2019)	100%	Full Consolidation

***ownership of MCIE as on September 30, 2019*

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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.

For more information, visit www.icra.in

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