

Ratings



Rating Rationale

April 22, 2020 | Mumbai

Gestamp Automotive Chennai Private Limited

Rating placed on 'Watch Negative'

Rating Action

Rs.275 Crore Non Convertible Debentures	CRISIL BBB+ (Placed on 'Rating Watch with Negative Implications')
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its 'CRISIL BBB+' rating on the non-convertible debentures (NCDs) of Gestamp Automotive Chennai Private Limited (GACPL, part of Gestamp group) on '**Rating Watch with Negative Implications**'.

The rating has been placed on watch following S&P Global Ratings' (S&P) revision in ratings on GACPL's ultimate parent, Gestamp Automocion S.A (GASA) to 'BB/Watch Negative' from 'BB/Negative'. S&P expects that the recent industry wide shut downs in US and Europe could potentially indicate a larger downside than earlier assumptions and GASA will likely take a significant hit on its earnings generation in CY 2020.

GACPL's revenues during fiscal 2020 are expected to decline due to continued decline in off-take from original equipment manufacturers (OEM) mainly Ford and Nissan. Profitability will also decline due to lower absorption of fixed costs and absence of any tooling income.

During fiscal 2020, GACPL has availed Rs 100 crore of inter corporate loans from Gestamp Automotive India, Pune (GAI, subsidiary of GASA). The company further plans to refinance its NCDs (from parent) of Rs 275 crore (which is due for redemption in April 2021) through additional inter corporate loans of Rs 200 crore from GAI at lower interest rates (compared to existing interest rate of 11.5%) during early fiscal 2021.

The ratings continue to factor strong support from the parent, GASA, a leading automotive parts manufacturer for many global OEMs. GAPCL will benefit from the improving business risk profile driven by new customer additions. This is partially offset by client concentration risk and absence of revenue diversification into aftermarkets or exports.

Analytical Approach

For arriving at its rating, CRISIL has fully consolidated the business and financial risk profiles of GACPL and Gestamp Pune Automotive Pvt Ltd (GPAPL). CRISIL considers GPAPL as being strategically important to GACPL in view of their common line of business and significant operational and financial linkages.

For arriving at the ratings, CRISIL has applied its parent notch-up framework to factor in the extent of financial and managerial support available from the parent, GASA. CRISIL believes that GACPL will, in case of exigencies, receive distress support from

GASA for timely repayment of debt obligations.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation .

Key Rating Drivers & Detailed Description

Strengths

*** Need-based support from the parent, Gestamp Automocion S.A**

GACPL derives need-based operational and financial support from the parent GASA. The company has achieved a moderate scale of business by leveraging the parent's product portfolio and established relationships with key global customers such as Ford, Renault and Nissan. The parent company also extends need-based technical and operational support. In fiscal 2016, NCDs of Rs 275 crores issued by GACPL, were fully subscribed by the parent, demonstrating the commitment of the parent company in providing financial support to enable GACPL to operate and settle its obligations as they become due. NCD repayment is due in April 2021 and is expected to be refinanced through inter corporate loans from GAI.

CRISIL believes GACPL will continue to derive timely need-based support from the parent.

*** Improving business risk profile**

Gestamp group's business risk profile is improving, backed by improving scale of operations mainly in Pune facility and a healthy operating margin of about 12.6% in fiscal 2019. Company's market position is driven by its established relationships with OEMs such as Renault, Nissan, and Ford. Company is expected to forge new partnerships with leading OEMs mainly for its hot-stamping technology driven by increasing opportunities from the implementation of BS-VI norms and introduction of electric vehicles over the medium term. Despite the slowdown envisaged in the OEM volumes, operating margin is expected to remain healthy and improve gradually over the medium term, driven by better capacity utilisation and various cost control measures undertaken by the company.

Weaknesses

*** Modest financial risk profile**

GACPL's financial risk profile remains modest. Gearing is expected to improve to 2.9 times in fiscal 2019 compared to 3.2 times in fiscal 2018 on account of lower borrowing by GPAPL to fund its capex and increased working capital requirement. Debt protection metrics are expected to be moderate with interest coverage of about 2.08 times and NCATD of about 0.09 times in fiscal 2019.

*** Exposure to risks relating to concentration in revenue**

OEMs account for the entire revenue, in the absence of any diversification into exports or aftermarket segments. Risks relating to revenue concentration in the OEM segment are partially mitigated by the company's established relationships with the OEMs. Gestamp is expected to forge new customers for its hot stamping technology over the medium term; nevertheless, CRISIL believes that due to limited customer diversification, revenue will continue to be linked with performance of OEMs in the domestic market.

Liquidity Adequate

Liquidity remains adequate, aided by cash surplus of about Rs 42 crore as of December 2019 and sufficient cushion in bank limits of Rs 215 crore which have been moderately utilized at about 50% during the 12-month period end December 2019. Yearly cash accrual of Rs 30 crore expected over the medium term should adequately cover part working capital requirements.

Rating Sensitivity Factors

Upward Factors

- * Improvement in revenues driven by addition of new customers
- * Operating profitability sustaining above 12% driven by improvement in scale of operations
- * Upgrade in GASA's ratings by S&P Global Ratings.

Downward Factors

- * Downgrade in GASA's ratings by S&P Global Ratings
- * Further decline in business performance due to lower offtake or decline in operating profitability below 9% leading to steep decline in accruals
- * Larger-than-expected external-debt-funded capital expenditure or working capital requirement, impacting financial risk profile and liquidity.

About the Parent

GASA based in Madrid, Spain, was founded in 1997 and is one of large manufacturers of body-in-white and chassis for global automobile OEMs. Key products include external as well as structural components, chassis, door mechanism components, powered systems, and drive controls. It has strong and longstanding association with many global OEMs including Volkswagen AG (rated BBB+/Stable/A2 by S&P), Renault-Nissan BV (rated BBB-/Credit watch negative/A-3 by S&P), Daimler AG (rated A-/Negative/A-1 by S&P), General Motors Company and Bayerische Motoren Werke AG (BMW; rated A+/Negative/A-1 by S&P). The Gestamp group has over 100 manufacturing plants spread over 20 countries across the globe.

About the Company

GACPL, incorporated on July 29, 2011, manufactures cold stampings and structural components. The company has a 40,150 square meter manufacturing facility in Chennai, and sells primarily to Renault, Nissan, and Ford. It began operations in August 2012.

Key Financial Indicators

As on/for the period ended March 31	Unit	2018	2017
Revenue	Rs.Crore	995	559
PAT	Rs.Crore	4	2
PAT margins	%	0.4	0.4
Adjusted debt/adjusted networth	Times	3.21	2.41
Interest coverage	Times	2.01	1.87

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
INE428U08018	Non-Convertible Debentures	3-Oct-2016	11.5%	15-Apr-2021	275	CRISIL BBB+/Watch Negative

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation

Gestamp Pune Automotive Pvt Ltd	Full	common line of business and significant operational and financial linkages
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Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	275.00 22-04-20	CRISIL BBB+/(Watch) Negative	18-03-20	CRISIL BBB+/Negative	03-10-19	CRISIL BBB+/Stable	05-01-18	CRISIL BBB/Positive			CRISIL BBB/Stable
						17-01-19	CRISIL BBB+/Stable					

All amounts are in Rs.Cr.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Auto Component Suppliers](#)

[CRISILs Criteria for Consolidation](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

[Mapping global scale ratings onto CRISIL scale](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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