

# Ratings



## Rating Rationale

August 14, 2020 | Mumbai

### Gestamp Automotive Chennai Private Limited

Rating downgraded to 'CRISIL BBB/Stable', removed from 'Watch Negative'

#### Rating Action

Rs.275 Crore Non Convertible Debentures	CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+'; Removed from '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 removed its rating on the non-convertible debentures (NCDs) of Gestamp Automotive Chennai Private Limited (GACPL, part of Gestamp group) from 'Rating Watch with Negative Implications' and downgraded the rating to 'CRISIL BBB' from 'CRISIL BBB+'; and has assigned a 'Stable' outlook.

The rating action follows the downgrade in the S&P Global Ratings' (S&P) rating on GACPL's ultimate parent, Gestamp Automocion S.A (GASA) to 'S&P BB-/Stable' from 'S&P BB/Watch Negative'. S&P expects GASA's revenues to decline 20-22% during CY 2020 due to lower automotive volumes across US and Europe markets, leading to decline in adjusted funds flow from operations to debt ratio to 12%-14% (compared to 20% in CY 2019).

CRISIL expects GACPL's business performance to remain subdued in fiscal 2021 due to Covid induced slowdown leading to continued decline in off-take from key original equipment manufacturers (OEMs), mainly Ford and Nissan in both domestic and export markets. However, performance should gradually revive over the medium term with expected demand recovery from OEMs in fiscal 2022 coupled with increased offtake from new customers. The impact of lockdown and consequent lower absorption of fixed costs on profitability are partially mitigated by cost optimization measures including reduction in employees implemented during the year.

During fiscal 2020, GACPL has availed Rs 100 crore of inter corporate loans from Gestamp Automotive India, Pune (GAI, subsidiary of GASA). During fiscal 2021, GACPL has further availed Rs 60 crore from GAI to better manage liquidity requirements during the nationwide lockdown. 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 fiscal 2021.

The ratings continue to factor strong support from the parent, GASA, a leading automotive parts manufacturer for many global OEMs. GACPL 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 undrawn inter corporate loans of about Rs 15 crore as of August 2020 and sufficient cushion in bank limits of Rs 215 crore which have been sparsely utilized at less than 10% during the 6-month period end June 2020. Yearly cash accrual are expected to increase to about Rs 30-40 crore expected over the medium term post the volume decline in fiscal 2020 and 2021 and should adequately cover incremental working capital requirements.

#### Outlook: Stable

Gestamp group's performance is expected to remain subdued given the expected lower offtake from key customers following the slow-down in automobile industry, both in the domestic as well as the export markets, which is presently being accentuated by the coronavirus impact. The impact may be partly mitigated by expansion of customer base. Financial risk profile is also expected to remain moderate due to lower cash accruals envisaged in fiscal 2021. The group however will continue to receive financial support from the parent in case of exigencies.

#### Rating Sensitivity factors

##### Upward factors:

- \* Improvement in revenues driven by addition of new customers and increase in unit volumes.
- \* Operating profitability sustaining above 10% driven by improvement in scale of operations
- \* Upgrade in parent's rating by S&P Global Ratings

##### Downward factors:

- \* Downgrade in parent's rating by S&P Global Ratings
- \* Continued decline or delay in recovery in business performance due to lower offtake from OEMs leading to sustained decline in operating profitability below 6% and lower 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 (Consolidated)

As on / for the period ended March 31		2019	2018
Revenue	Rs Crores	666	915
PAT	Rs Crores	(12.4)	3.8
PAT margins	%	(1.9)	0.4
Adjusted debt/adjusted net worth	Times	3.17	3.21
Interest coverage	Times	1.54	2.01

**Any other information:** Not applicable

#### Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

#### Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Complexity levels	Issue Size (Rs Cr)	Rating Assigned with Outlook
INE428U08018	Non-Convertible Debentures	3-Oct-16	11.5%	15-Apr-21	Simple	275	CRISIL BBB/Stable

#### Annexure - List of entities consolidated

Fully consolidated entities	Extent of Consolidation	Rationale for Consolidation
Gestamp Pune Automotive Pvt Ltd	Full	common line of business and significant operational and financial linkages

#### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	275.00 13-08-20	CRISIL BBB/Stable	20-07-20	CRISIL BBB+/Watch Negative	03-10-19	CRISIL BBB+/Stable	05-01-18	CRISIL BBB/Positive			CRISIL BBB/Stable
				22-04-20	CRISIL BBB+/Watch Negative	17-01-19	CRISIL BBB+/Stable					
				18-03-20	CRISIL BBB+/Negative							

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](#)

#### For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p><b>Saman Khan</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 3895 B: +91 22 3342 3000 <a href="mailto:saman.khan@crisil.com">saman.khan@crisil.com</a></p> <p><b>Naireen Ahmed</b> Media Relations <b>CRISIL Limited</b> D: +91 22 3342 1818 B: +91 22 3342 3000 <a href="mailto:naireen.ahmed@crisil.com">naireen.ahmed@crisil.com</a></p>	<p><b>Anuj Sethi</b> Senior Director - CRISIL Ratings <b>CRISIL Limited</b> B: +91 44 6656 3100 <a href="mailto:anuj.sethi@crisil.com">anuj.sethi@crisil.com</a></p> <p><b>Sameer Charania</b> Director - CRISIL Ratings <b>CRISIL Limited</b> D: +91 22 4097 8025 <a href="mailto:sameer.charania@crisil.com">sameer.charania@crisil.com</a></p> <p><b>Preetham Sharma</b> Rating Analyst - CRISIL Ratings <b>CRISIL Limited</b> D: +91 44 6656 3141 <a href="mailto:preetham.sharma@crisil.com">preetham.sharma@crisil.com</a></p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></p> <p>For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a></p>

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