CRISIL
Ratings

Rating Rationale

December 22, 2023 | Mumbai

Force Motors Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.1378 Crore (Reduced from Rs.1507 Crore)**
Long Term Rating	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.79.16 Crore (Reduced from Rs.142.5 Crore) Unlisted, Secured, Redeemable, Non-Convertible Debenture	**CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long term bank facilities & Non-convertible debentures of Force Motors Ltd (FML) to '**Positive'** from 'Stable' while reaffirming the long term rating at '**CRISIL AA'** and short term rating at 'CRISIL A1+'. CRISIL Ratings has also withdrawn its rating on Rs.129 crores of bank facilities (see Annexure: Details of rating withdrawn) owing to repayment of term loans and basis company's request. The withdrawal is in line with CRISIL Ratings' withdrawal policy.

The rating on the unlisted secured redeemable NCDs to the extent of Rs 63.3 crore has been reduced due to repayment of obligations by FML.

The rating action on FML's debt facilities follows the revision in rating outlook on debt facilities of parent, Jay Hind Industries Pvt. Ltd (JHI), to 'Positive' from 'Stable; ratings have been reaffirmed at 'CRISIL AA/CRISIL A1+'. Besides, the rating action also reflects better than anticipated and continuing improvement in FML's operating performance, supported by sharp increase in sale volumes and overall revenues, as well as better operating leverage, benefitting operating margin, which rose to 12.3% in the first half of current fiscal, from 7.5% in fiscal 2023. The performance of FML is expected to further improve with new product launches(face-lift versions of Urbania, Citiline and Gurkha) and improving traction in the exports market, while better utilization of capacity will enable operating margins of 12-13% over the medium term. Besides, FML continues to maintain a healthy financial risk profile and also benefits from financial flexibility available with JHI.

The ratings continue to reflect FML's leading position in the domestic light commercial vehicle (LCV) segment, modest but growing presence across multi-utility vehicle (MUV) and Special vehicle (SV) segments, and well-established position in the automotive component business with long standing relationships with reputed OEMs resulting in a diversified revenue stream. The ratings also factor in the company's strong financial risk profile, and strong financial flexibility, provided by the promoters and their intent to offer additional support, if required. These strengths sufficiently offset the impact of intense competition in the LCV segment, susceptibility to the cyclicality in demand and vulnerability of profitability to volatile input price movement and economic factors as well.
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Demand for LCV and MUVs catered to by FML has bounced back strongly with opening up of school, corporate offices and pick up in travel. Revenue for fiscal 2023 stood at Rs.5079 crores: a y-o-y growth of ~56% driven by volume growth of ~29% and balance through price increases. Strong momentum continued in first half of fiscal 2024 where FML recorded revenues of Rs. 3289 crores; a y-o-y growth of 47% over the corresponding period previous fiscal. Automobile (auto) volumes improved to 16598 in the first half of fiscal 2024, from 12587 in the first half of fiscal 2023 (fiscal 2023: 26461) and are expected to surpass the pre-pandemic levels in the current fiscal. The auto components business has also been performing well backed by steady rise in engine assembly volumes for original equipment manufacturers (OEMs), mainly BMW India Pvt Ltd (BMW) and Mercedes Benz India Pvt Ltd. (MBIPL)

Operating margins in the first half of fiscal 2024 sharply improved to 12.3% from 7.5% in fiscal 2023 due price revisions and better product mix coupled with better operating leverage. The margins are expected to remain stable at 12-13% over the medium term.

Total debt as of September 30, 2023 stood at Rs.728 crores as compared to Rs.955 crores at March 31, 2023, and Rs.1069 crores at March 31, 2022. The debt portion includes Rs.150 crores availed from parent, Jaya Hind Industries Ltd (JHI, rated 'CRISIL AA+/Positive/CRISIL A1+") which has no fixed repayments. Gearing improved to 0.51x at September 30, 2023, from

0.61 times at March 31, 2022. With improvement in operating profitability and reduction in overall external debt levels, the financial risk profile continues to remain strong. Interest coverage remained healthy at 12.6x in the first half of fiscal 2024.. FML has planned capex of Rs.1,500-1,700 crores over the next 3 fiscals which is expected to be funded with prudent debt-to-equity mix, ensuring debt metrics remain strong.

FML also has strong parentage with major shareholder, JHI, enjoying robust financial flexibility. The market value of JHI's listed investments stood at over Rs. 24,000 crore at September 30, 2023, while cash surpluses were at over Rs.460 crore. Support from JHI, if required, is expected to be forthcoming in the event of any financial exigencies/sizeable acquisitions.

Analytical Approach
For arriving at the ratings, CRISIL Ratings has applied the parent notch-up criteria for FML's principal shareholder from the Abhay Firodia group, JHI, because of FML's importance to the group and the group's demonstrated strong financial and managerial support to the Company.

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

- **Leading position in the domestic LCV passenger segment and diversified revenue stream**
  FML focusses on the niche passenger segment of LCV. In the LCV school buses and ambulances segment, the company has a market share of over 70%. FML will continue to benefit from its niche positioning in the auto OEM market, supported by the steady launch of new products and variants and rise in demand in the LCV segment. OEM sales accounted for ~60% of FML's revenues in fiscal 2023.

  FML also assembles engines on behalf of BMW and MBIPL's premier passenger vehicles in India, through its automotive component plants near Chennai. The automotive component business has grown in scale adding diversity to revenue streams. It accounts for ~40% of FML's revenues.

  Besides, FML has a joint venture (JV), Force MTU Power Systems Pvt. Ltd, with MTU Friedrichshafen GmbH (FML owns 51% stake in the JV), to produce engines for the powergen and railway applications supplied to a leading luxury PV OEM. The JV company manufactures and supplies 10 and 12-cylinder, series 1,600 engines for power generation and under floor rail applications.

- **Strong financial risk profile**
  The financial risk profile of FML remained robust marked by strong net-worth of over Rs.2,000 crores as on September 30 2023, and debt levels of.728 crores, translating to strong leverage metrics. The debt portion includes Rs.150 crores availed from JHI, which has no fixed repayments. With improvement in operating profitability and reduction in overall external debt levels and only modest capital spending, the debt protection metrics of the company improved as reflected in interest coverage of 12.6 times during the first half of fiscal 2024 (5.58 times in fiscal 2023), while gearing stood at below 0.5 times at September 30, 2023. Healthy cash generation and prudent funding of modest capex will ensure debt protection metrics remain at healthy levels.

- **Strong support from the promoters**
  The holding company of the Abhay Firodia group, JHI, owns 57.38% stake in FML, and has stakes of significant market value in the Bajaj group of companies. Market value of investments held was in excess of Rs.24,000 crore at September 30, 2023. This provides strong financial flexibility to the group, including FML.

Weaknesses:

- **Presence in niche segment susceptible to cyclicality in demand:**
  FML is a leading player in the LCV (passenger) segment which is an extremely niche segment and susceptible to demand cyclicality. Same was witnessed during the pandemic owing to closure of schools and offices and downturn in travel segment which in turn impacted the company's volumes. Further, FML has low market share in the high-volume UV segment, where there is intense competition from Tata Motors Ltd (TML. 'CRISIL AA/Stable/CRISIL A1+'), Mahindra & Mahindra Ltd (M&M; 'CRISIL AAA/Stable/CRISIL A1+') etc.. The company's market share in the tractor segment is also modest on account of intense competition from large players, including M&M, Escorts Kubota ('CRISIL AA+/Stable/CRISIL A1+') and Tractors and Farm Equipment Ltd ('CRISIL AA+/Positive/CRISIL A1+').

  The automobile industry is subjected to macro-economic headwinds emanating from inflationary pressure and economic slowdown. Economic downturns impact consumer spending on discretionary items, and hence slowdown in economic activity can impact industry sales and thus impact FML. However, in spite of the intense competition, overall volumes are staging good recovery especially in the LCV segment, where FML is present, in the current fiscal. Sustainability of recovery in LCV volumes will be critical going forward.

- **Profitability susceptible to macro-economic factors, industry cyclicality and raw material prices:** While higher volumes and better product mix have enabled the Company report operating margins of over 12% in the first half of fiscal 2024, profitability has been volatile ranging between 2.3% and 12.3% over the past 4-5 years. Raw materials and components prices constituting more than 50% of revenues are directly influenced by international commodity prices, and have displayed cyclical trends depending on demand-supply situation. Besides macro-economic factors and government policies also have a bearing on price movement of key inputs such as steel, tyres etc.

Liquidity: Strong
FML's liquidity will remain strong, driven by healthy cash accrual of Rs 293 crore in first half of fiscal 2024, and expectation of cash accrual of over Rs.500 crore per annum. The fund-based limit of Rs 515 crore was utilised at 12% on an average

during the 12 months through November 2023. Internal accrual, cash and cash equivalent and unutilised bank lines will be sufficient to meet debt obligations of Rs. ~265 crore in fiscal 2024, and Rs. ~250-300 crore in fiscal 2025 and incremental working capital requirement, as well as fund sizeable portion of capex of Rs. 1,500-1,700 crores over next 3 fiscals. Moreover, the Abhay Firodia group has robust liquidity and will provide need-based support to FML. The group will continue to provide strong financial flexibility and need-based financial support.

ESG profile
The environment, social and governance (ESG) profile of FML supports its adequate credit risk profile.

The retail sector has low environmental impact, primarily in the form of low emissions and water consumption and increasing focus on the usage of sustainable packaging. The sector has moderate social impact because of its direct bearing on the health and wellbeing of its workers and customers.

The company's increasing focus on addressing ESG risks supports its ESG profile.

Key ESG highlights of FML:

- The company's ESG disclosures are in line with the guidelines framed by the Ministry of Corporate Affairs and publish Business Responsibility Report., and it is in the process of further strengthening the disclosures over the medium term.
- Increasing use of solar power has enabled the Company to reduce its dependence on normal power supply, utilising the large areas offered by factory roofing in various plants.
- All Tier-1 suppliers are ISO Certified Vendors and operates as per ESG Guidelines. The company sources 37% of its input material sustainably.
- The governance structure of FML is characterised by 63% of independent director, a split chairman and chief executive officer position, extensive financial disclosures, presence of an investor grievance committee.

CRISIL Ratings believes that as FML's ESG strategy evolves over the medium term, more quantitative information on relevant parameters and goals is desirable.

There is growing importance of ESG among investors and lenders. The company's commitment to ESG and embedding sustainability principles across the organisation and its value chain will play a key role in enhancing stakeholder confidence and access to capital markets.

Outlook Positive
CRISIL Ratings believes FML will continue to benefit from its leadership position in niche products segments, revenue diversity and stable operating profitability. Furthermore, the financial risk profile will improve over the medium term, with limited increase in total debt in future because of healthy cash accrual vis a vis progressive loan repayments and financial flexibility of the Abhay Firodia group. Additionally, the ratings also factor in strong credit risk profile of FML's parent, JHI.

Rating Sensitivity factors
Upward factors

- Substantial increase in market share across segments leading to increase scale of operations while sustaining operating margin at around 12-13%.
- Continued improvement in financial risk profile leading to better key debt protection metrics

Downward factors

- Decline in operating margin to below 7-8% on sustained basis in near term.
- Larger-than-expected, debt-funded capex or acquisition leading to deterioration in key debt metrics.
- Downward revision in rating of parent by 1 or more notches, or change in stance of support.

About the Company
Established in 1958, FML is the flagship company of the Abhay Firodia group. The Company is a fully vertically integrated manufacturer of small and light CVs, Multiutility vehicles, and agricultural tractors. Under the auto components division, engines are assembled for MBIPL and BMW. The primary brands in LCVs and Multiutility vehicles include Traveller, Urbania, T3 Buses, Trax, Citiline and Gurkha , while the brands in tractors are Balwan, Orchard, Abhiman and Sanman.

For the six months ended September 30, 2023, net profit was Rs 162 crore on net sales of Rs 3289 crore, on a consolidated basis as against net profit of Rs 2.6 crore on net sales of Rs 2234 crore in the corresponding period of the previous fiscal.

About the Group
The Abhay Firodia group, based in Pune, Maharashtra, is headed by Mr Abhay Kumar Firodia (Chairman of FML) and Mr Prasan Firodia (Managing Director). The group includes JHI, which manufacture and supply aluminium cylinder heads, blocks and other aluminium components for leading auto OEMs.

Key Financial Indicators

Particulars for period ended March 31	Unit	2023	2022
Revenue	Rs crore	5079	3265
Profit after tax (PAT)	Rs crore	134	-91
PAT margin	%	2.6	-2.8
Adjusted debt / adjusted networth	Times	0.51	0.61
Interest coverage	Times	5.6	2.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` 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.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
INE451A07014	Unlisted Secured Redeemable NCD	15-Feb-21	5.85%	15-Feb-25	79.16	Simple	CRISIL AA/Positive
NA	Cash Credit	NA	NA	NA	390	NA	CRISIL AA/Positive
NA	Letter of credit & Bank Guarantee	NA	NA	NA	250	NA	CRISIL A1+
NA	Fund-Based Facilities*	NA	NA	NA	125	NA	CRISIL AA/Positive
NA	Term Loan	NA	NA	Oct-23	129	NA	Withdrawn
NA	Term Loan	NA	NA	Feb-25	130	NA	CRISIL AA/Positive
NA	Term Loan	NA	NA	Oct-27	246	NA	CRISIL AA/Positive
NA	Term Loan	NA	NA	Apr-26	37	NA	CRISIL AA/Positive
NA	Term Loan	NA	NA	Dec-26	200	NA	CRISIL AA/Positive

**Limits are interchangable with Non-fund based limits to the extent of Rs.50 crores*

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
INE451A07014	Unlisted Secured Redeemable NCD	15-Feb-21	5.85%	15-Feb-25	63.34	Simple	Withdrawn

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Tempo Finance (West) Pvt Ltd	100%	Business linkages
Force MTU Power Systems Private Limited	51%	Business linkages

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1257.0	CRISIL AA/Positive	06-02-23	CRISIL AA/Stable	07-02-22	CRISIL AA/Stable	29-09-21	CRISIL AA/Stable	31-03-20	CRISIL AA/Stable	CRISIL AA/Stable
			--	24-01-23	CRISIL AA/Stable		--	08-02-21	CRISIL AA/Stable		--	--
Non-Fund Based Facilities	ST	250.0	CRISIL A1+	06-02-23	CRISIL A1+	07-02-22	CRISIL A1+	29-09-21	CRISIL A1+	31-03-20	CRISIL A1+	CRISIL A1+
			--	24-01-23	CRISIL A1+		--	08-02-21	CRISIL A1+		--	--
Commercial Paper	ST		--		--		--		--		--	Withdrawn
Unlisted, Secured, Redeemable, Non-Convertible Debenture	LT	79.16	CRISIL AA/Positive	06-02-23	CRISIL AA/Stable	07-02-22	CRISIL AA/Stable	29-09-21	CRISIL AA/Stable		--	--
			--	24-01-23	CRISIL AA/Stable		--	08-02-21	CRISIL AA/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	55	State Bank of India	CRISIL AA/Positive
Cash Credit	100	Kotak Mahindra Bank Limited	CRISIL AA/Positive
Cash Credit	150	HDFC Bank Limited	CRISIL AA/Positive
Cash Credit	85	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA/Positive
Fund-Based Facilities&	125	ICICI Bank Limited	CRISIL AA/Positive
Letter of credit & Bank Guarantee	60	Kotak Mahindra Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	30	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Letter of credit & Bank Guarantee	100	State Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee	60	HDFC Bank Limited	CRISIL A1+
Term Loan	129	HDFC Bank Limited	Withdrawn
Term Loan	246	HDFC Bank Limited	CRISIL AA/Positive
Term Loan	37	HDFC Bank Limited	CRISIL AA/Positive
Term Loan	200	ICICI Bank Limited	CRISIL AA/Positive
Term Loan	130	HDFC Bank Limited	CRISIL AA/Positive

& - Limits are interchangeable with Non-fund based limits to the extent of Rs.50 crores

Criteria Details

Links to related criteria
[Rating criteria for manufaturing and service sector companies]()
[CRISILs Bank Loan Ratings - process, scale and default recognition]()
[CRISILs Approach to Financial Ratios]()
[Rating Criteria for Commercial Vehicle Industry]()
[CRISILs Criteria for rating short term debt]()
[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support]()
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