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Auto component firms turn to Tata, M&M finance arms

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Large automobile corporates like Mahindra & Mahindra and Tata are throwing their weight behind small component firms through their finance arms to meet the latter's working capital requirement as banks are tightening their lending norms, amid rising non-performing assets (NPAs).

A fast expanding automobile market and an impending transition from BS-IV to BS-VI emission norms necessitate massive investment by the suppliers. A steep increase in prices of raw material is also prompting such suppliers to seek loans from firms such as Tata Capital and Mahindra Finance. This is despite the cost of borrowing from them being marginally higher than commercial banks.

A fortnight ago, Hemant Sikka, president and chief purchasing officer of the power and spares business at M&M, addressed 90 of its core suppliers. Working capital emerged as an issue with some, he said.

"Though not a serious issue, we are vigilant on the situation and doing our bit to help," he said, adding that M&M had referred quite a few of its suppliers to Mahindra Financial Services.

Similarly, Tata Motors has been directing its suppliers to Tata Capital. "Over the past one year they (Tata Capital) have become very active," said a Tata Motors supplier.

The rate of interest is marginally higher but they don't ask for hypothecation. So, it makes sense to borrow from them, he explained.

A Tata Motors spokesperson said, "Tata Motors has been a pioneer in building a vibrant eco-system of supplier partners. Consistent with our turnaround journey, we are also enhancing our supplier network to gain access to all requisite technologies. We work closely with our suppliers and provide the requisite technical and financial support."

An increase in sales across all categories in the automobile industry has made the need for higher working capital inevitable. In 2017-18, sales of passenger vehicles, two-wheelers, three-wheelers and commercial vehicles rose 8 per cent, 15 per cent, 24 per cent and 20 per cent, respectively, according to the Society of Indian Automobile Manufacturers (Siam).

Automakers will have to invest around ₹500 billion by 2020 to leapfrog from BS-IV to BS-VI emission standards, a committee appointed by the government had said in February 2016. The investment already made is not known.

Vinnie Mehta, director-general at Automotive Component Manufacturers Association said, typically, the auto component industry's investments are two-and-half-times of the automakers.

While large tier-one suppliers are able to make the investment and meet capital requirements without support from automobile companies, smaller suppliers at the lower end of the value chain are struggling, Mehta said.

A sharp increase in the price of raw materials such as steel—by as much as 15 to 20 per cent over the last one year — is adding to the woes, said a Tata Motors supplier declining to be identified.

"We are paying a higher price to buy the same quantity of steel but selling the finished parts to companies at the older price.

The OEMs (original equipment manufacturers) compensate us for the increase with a lag. This is mounting further pressure on the working capital.

"As it is the requirement of working capital has gone up owing to higher demand from companies," he said.

Another Delhi-based supplier* which counts Maruti Suzuki India, Tata Motors and M&M as its key customers, said quite a few auto component makers have opted out of bill discounting from the OEMs in the recent past as the cost of finance from the instrument has gone up recently.

Invoice or bill discounting is a source of working capital finance for the seller of goods on credit. It is an arrangement whereby the seller recovers an amount of sales bill from the financial intermediaries before it is due. Owing to an unco petitive rate, suppliers are opting to get paid after the 60 to 90 days as is the norm. This too is mounting pressure on working capital needs.

Jayant Davar, co-chairman and managing director of Sandhar Group said neither his firm is facing any issue, nor are the smaller suppliers who feed into his company.

This is so as Sandhar offers them line of credit. "There is definitely a cash crunch," particularly for small and medium enterprises (SMEs), he said. "The banks have cut down credit and have become a lot more stringent."

AUTO SALES VROOM

- Auto sales (all categories) rose 14.22 per cent to 24,972,788 units in FY18 over FY17
- An increase in volume has bumped up demand for auto components
- Working capital needs of auto component firms have shot up due to higher callout from automakers
- Auto makers are expected to invest around ₹500 billion by 2020 to meet BSVI norms