

May 11, 2023

ABT Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Non-Convertible Debt	6.00	6.00	[ICRA]BB (Stable); reaffirmed
Long-term – Term Loans	12.90	12.90	[ICRA]BB (Stable); reaffirmed
Long-term – Fund-based Limits	50.00	50.00	[ICRA]BB (Stable); reaffirmed
Long-term – Non-fund Based Limits	0.65	0.65	[ICRA]BB (Stable); reaffirmed
Short-term: Unallocated	18.37	18.37	[ICRA]A4; reaffirmed
Total	87.92	87.92	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings outstanding on the bank loans and NCD of ABT Industries Limited's (AIL/the company) reflects ICRA's expectation of a sustained financial performance in the near to medium term, supported by its established market presence in the domestic auto dealership business and diversified business profile. The company is TML's sole authorised dealer in several major towns in Tamil Nadu. Further, it is present in two industries, deriving 71% of its revenues from the CV dealership and 29% from the dairy segment in 9M FY2023. In terms of profits, 58% of AIL's Profit Before Interest Tax (PBIT) in 9M FY2023 was from the dairy segment, while 42% came from the dealership segment. The diverse business profile lends stability to revenues to an extent. Dairy being an essential commodity and AIL's recent expansion into value-added products in the segment, also augurs well for the company. Further, AIL is part of the larger Sakthi Group of companies, which has diversified interests across various industries including automobile, transport, education, textiles and sugar.

The ratings, however, remain constrained by the company's stretched capital structure, coverage metrics and liquidity position. AIL's revenues witnessed healthy improvement to Rs. 508.8 crore in 9M FY2023 reflecting a YoY growth of 17.1%, aided by favourable demand and low base effect of FY2022. Nevertheless, its margins remain thin, at 4.4% for 9M FY2023. The company's thin margins and relatively high dependence on external debt for its capex and working capital requirements have resulted in stretched capital structure and debt protection metrics. The company's net gearing¹ stood at 3.6 times as on December 31, 2022, while its interest cover and Net debt/OPBDITA stood at 1.2 times and 7.1 times respectively for 9M FY2023. AIL's liquidity also remains stretched, although healthy financial flexibility by being part of the larger Sakthi Group and commitment from promoters to extend timely and adequate financial support augur well for the company. The company also has some unused land banks that can be liquidated on need basis.

Key rating drivers and their description

Credit strengths

Diverse business profile – The company is present in two industries, deriving 71% of its revenues from the CV dealership and 29% from the dairy segment in 9M FY2023. In terms of profits, 58% of AIL's PBIT in 9M FY2023 was from the dairy segment,

¹ Net gearing = Net debt/Tangible Net worth; Net debt represents gross debt minus unencumbered cash and bank balances

while 42% came from the dealership segment. The diverse business profile lends stability to revenues to an extent. Dairy being an essential commodity and recent expansion into value-added products in the segment, also augurs well for the company.

Sole authorised dealer of TML CVs in several clusters of Tamil Nadu – The company enjoys an established presence in the domestic automobile dealership industry as TML's sole authorised dealer in several major towns in Tamil Nadu, namely Coimbatore, Erode and Madurai, etc. It has 13 showrooms across tier-1 and 2 cities in Tamil Nadu. Also, AIL is part of the larger Sakthi Group of companies, which has diversified interests across various industries including automobile, transport, education, textiles and sugar.

Credit challenges

Stretched capital structure and coverage metrics – The company's thin margins and relatively high dependence on external debt for its capex and working capital requirements have resulted in stretched capital structure and debt protection metrics. The company's net gearing stood at 3.6 times as on December 31, 2022, while its interest cover and Net debt/OPBDITA stood at 1.2 times and 7.1 times respectively in 9M FY2023. The company's debt protection metrics are expected to remain stretched over the medium-term, despite absence of any significant debt-funded capex plans.

Relatively thin profit margins – The company's dealership business has thin margins, akin to other players in the industry. Despite better margins from the dairy segment, the company's overall operating margins have largely hovered in the 4-5% range. Going forward, the likely increase in value-added products from the dairy segment would be beneficial for the company. Also, in the event of lockdowns, dairy being an essential commodity, will aid in relatively stable accruals for the company.

High dependence on the CV segment – The CV dealership division accounts for more than 70% of AIL's total revenues. This exposes the company to the inherent cyclicity in CV sales, which is linked to economic cycles. The diversification through the dairy business mitigates the risk to an extent. Also, AIL witnesses competition from dealers of other original equipment manufacturers (OEMs).

Liquidity position: Stretched

AIL's liquidity position is stretched, impacted by its relatively low accruals and high working capital intensity. The company's average working capital utilisation stood at 86% of sanctioned limits during the 12-month period from April 2022 to March 2023. The company had unencumbered cash and bank balance of Rs. 6.0 crore as on March 31, 2023. Against these sources of cash, AIL has principal repayment obligations of Rs. 11.6 crore in FY2024, Rs. 21.9 crore in FY2025 and Rs. 23.2 crore in FY2026, towards existing external loans. It does not have any significant capex commitments over the medium term. ICRA notes that the company enjoys healthy financial flexibility by being part of the larger Sakthi group. Further, the promoters are committed to extending timely and adequate financial support, should there be a requirement, for meeting the company's operating and financial commitments. The company also has some unused land banks that can be liquidated on need basis.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in cash accruals, liquidity position and consequent improvement in debt protection metrics.

Negative factors – Negative pressure on the company's ratings could arise in case of deterioration in liquidity position due to lower earnings or higher working capital intensity. Incremental exposure to Group companies will also be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Automobile Dealership Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on AIL's standalone financial statements.

About the company

AIL has two businesses – CV dealership for TML and dairy. The company runs its automobile dealership at 13 towns in Tamil Nadu, i.e., Madurai, Tuticorin, Tirunelveli, Theni, Nagercoil, Sivakasi, Paramakudi, Dindugul, Coimbatore, Erode, Tiruppur, Ooty and Palladam. In the dairy segment the company processes milk & curd, SMP, ghee, butter and paneer. CV dealership contributed 71% of revenues, and 42% of PBIT in 9M FY2023, while the dairy business contributed 29% of revenues and 58% of PBIT.

AIL is part of the Sakthi Group of companies based out of Coimbatore, which has diversified interests across various industries including automobile, transport, education, textiles and sugar. The Group is owned and managed by the three sons of Late Mr. N Mahalingam—Mr. M Manickam, Mr. M Balasubramaniam and Mr. M Srinivasan. All three brothers and their families have ownership in all the Group entities and are part of each company's board of directors. ABT Foods Ltd. is the largest shareholder of AIL and is jointly promoted by the promoter families.

Key financial indicators

Standalone	FY2021	FY2022
Operating income	486.2	616.8
PAT	(1.9)	1.2
OPBDIT/OI	4.5%	4.5%
PAT/OI	(0.4%)	0.2%
Total outside liabilities/Tangible net worth (times)	4.7	4.6
Total debt/OPBDIT (times)	10.6	8.1
Interest coverage (times)	0.8	1.0

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances. etc

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2022 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				May 11, 2023	May 30, 2022	May 06, 2021	Apr 15, 2020
1 NCD	Long Term	6.00	3.37	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)
2 Term loans	Long Term	12.90	10.79	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)
3 Cash credit	Long Term	50.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)
4 Bank Guarantee	Long Term	0.65	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)
5 Unallocated Limits	Long Term	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)
6 Letter of Credit	Short Term	-	-	-	-	[ICRA]A4	[ICRA]A4
7 Unallocated Limits	Short Term	18.37	-	[ICRA]A4	[ICRA]A4		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Non-Convertible debt	Simple
Long term – Term loans	Simple
Long term – Fund based limits (Cash Credit)	Simple
Long term – Non-fund based limits (Bank Guarantee)	Very Simple
Short term: Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs crore)	Current Rating and Outlook
INE475Y07013	NCD	FY2018	11.0%	FY2024	6.00	[ICRA]BB (Stable)
NA	Term loan	FY2016	12.3%	FY2030	12.90	[ICRA]BB (Stable)
NA	Cash credit	NA	NA	NA	50.00	[ICRA]BB (Stable)
NA	Bank Guarantee	NA	NA	NA	0.65	[ICRA]BB (Stable)
NA	Unallocated Limits	NA	NA	NA	18.37	[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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.

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Branches



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