May 29, 2023

# Autocomp Corporation Panse Private Limited: Ratings upgraded; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based/ Term Loans** | 28.44 | 47.71 | [ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable); assigned for enhanced limits |
| **Long-term – Fund-based/ Cash Credit** | 81.00 | 121.00 | [ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable); assigned for enhanced limits |
| **Short-term – Non-fund Based Facilities** | 27.00 | 60.00 | [ICRA]A2+; upgraded from [ICRA]A2; assigned for enhanced limits |
| **Long-term – Unallocated Limits** | 21.56 | 1.29 | [ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable) |
| **Total** | **158.00** | **230.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating upgrade takes into consideration the improved business prospects of Autocomp Corporation Panse Private Limited (ACPPL or the company) as demonstrated in its increasing scale of operations with 41% YoY revenue growth in FY2023 (resulting in a CAGR of 48% over the past two years), aided by healthy volume offtake from key customers of the company. Further, new client acquisitions in the recent past has supported revenue growth as well as diversification for ACPPL, strengthening its business prospects. On the other hand, increasing share of exports has provided some geographic diversification benefits as well for the company.

The ratings continue to draw comfort from the long and established track record of the promoters of ACPPL in the auto ancillary industry. In its operational track record spanning over three decades, ACPPL has developed established relationships with key original equipment manufacturers (OEMs) based in and around its manufacturing facilities in Pune and Pantnagar, resulting in sufficient revenue visibility for the company. ACPPL demonstrates a healthy share of business for most of the components supplied to the OEMs, highlighting client stickiness. Further, segmental diversification through its presence in two-wheelers (2W), light commercial vehicles (LCV), passenger vehicles (PV), heavy trucks and tractors, augurs well for its operational stability, and safeguards ACPPL's business against any sector-specific slowdowns to an extent.

The ratings also factor in the company's comfortable capital structure with a gearing of 0.8 time as on March 31, 2023 (provisional) and healthy coverage indicators. While the company intends to undertake capex of Rs. 95-100 crore over the near to medium term, ICRA expects it to maintain a healthy capital structure and coverage indicators, supported by healthy cash accruals from operations, and expectations of limited dependence on external borrowings to fund the same. Nonetheless, while the capacity addition would largely be to cater to the requirements of its existing clients, and there is sufficient revenue visibility for the same, the company's ability to ramp up these facilities in a timely manner without impacting return indicators and credit metrics materially would remain a key monitorable.

The rating strengths are partially offset by the exposure of ACPPL's revenue profile to the inherent cyclicality in the domestic automotive industry, from which it derives ~75-80% of its revenues. Any sizable and sustained downturn in the domestic automotive industry could, therefore, have an impact on ACPPL's business operations. ACPPL is also exposed to some customer concentration risks, with its top three customers accounting for ~58% of its sales in FY2023. Further, the high competitive intensity in ACPPL's business segments (supply of sheet metal components) results in restricted pricing flexibility leading to a modest operating profitability over the years. However, the company's focus on providing design solutions to OEMs and become a one-stop solution provider is expected to bode well for margin improvement, albeit over a longer term.

The Stable outlook reflects ICRA's expectations that ACPPL will continue to demonstrate a steady operational performance aided by well-established relations and its organic growth plans, going forward.

## Key rating drivers and their description

### Credit strengths

**Long and established track record of promoters in the auto ancillary industry –** Having established ACPPL in 1983, its promoters have a long and established track record in the auto ancillary industry. The well-established track record has supported the company in forging healthy relationships with its clients, and supports its business prospects, going forward as well.

**Established relationship with key OEMs; healthy share of business in most components supplied by the company –** Given its long operational track record, ACPPL has developed strong relationships with key OEMs across sectors, with repeat orders from its clientele supporting its business prospects. Further, the healthy share of business for the components and models that it supplies, offers comfort regarding its positioning with its client OEMs and revenue visibility. High tooling costs required towards the new product development also play out as an entry barrier for other players/ entrants in this industry.

**Diversified business profile with presence across multiple automotive segments –** ACPPL demonstrates healthy segmental diversification with its presence in multiple automotive sectors—viz., PVs, LCVs, heavy trucks, 2Ws and tractors, among others. This mitigates ACPPL's business against any sector-specific risks impacting any particular auto segment. The company is also focussing on augmenting its capabilities and customer portfolio further to improve its diversification efforts.

**Comfortable capital structure and coverage indicators –** ACPPL has a comfortable capital structure, supported by a healthy and expanding net worth position. Moreover, with steady cash accruals expected from operations, the company is expected to keep its dependence on external borrowings fairly limited going forward as well, despite increasing working capital requirements and capex outgo planned over the near term. Further, ACPPL's working capital profile continues to draw comfort through vendor financing facility for Tata Motors Limited (TML), one of its key principal OEMs. Accordingly, the company also reports comfortable coverage indicators (interest cover of 6.5 times, Total Debt/OPBITDA of 2.0 times in FY2023), which is expected to continue going forward as well.

### Credit challenges

**Revenue profile exposed to cyclicality inherent in auto industry –** Given the dependence of ACPPL on the auto sector, its business performance is closely linked with the performance of the sector in general. Many of the segments within the industry show an inherent cyclicality in demand, exposing ACPPL's revenues and earnings to volatility, in line with the industry trend. Further, any substantial slowdown in the auto industry could have a severe impact on the business operations of ACPPL. Nevertheless, the company's efforts to diversify in terms of segments catered, and towards exports, helps mitigate risks to some extent.

**High competitive intensity resulting in restricted pricing flexibility –** The sheet metal component business is characterised by high competitive intensity in the industry that restricts ACPPL's pricing flexibility to an extent. However, ACPPL's profitability is expected to be supported by efforts to enhance its capabilities including complete engineering solutions, which is expected to pan out over the medium to long-term. Nonetheless, the company's established relationships with its key customers and back-to-back pricing arrangements also provide some cushion against the said risk.

**Business operations vulnerable to performance of principal OEMs with moderate customer concentration risk –** With the company supplying various sheet metal components to its key customers, such as TML, Mahindra & Mahindra Limited (M&M), Jaguar Land Rover (JLR) and Bajaj Auto Limited (BAL), ACPPL's business performance is closely linked with the performance of these OEMs. Further, the company remains exposed to a moderate customer concentration risk, with its top three customers driving ~58% of its revenues in FY2023. However, ACPPL's established relationships with its key customers provide some comfort against this risk.

## Liquidity position: Adequate

The company's liquidity position is adequate, supported by cash and liquid investments of ~Rs. 14 crore and sufficient buffer in the form of undrawn working capital limits, which stood at ~Rs. 55 crore as of March 31, 2023. The cash flow generation is also expected to remain comfortable at Rs. 30-40 crore per annum over the medium term. Against these, the annual debt repayment quantum remains moderate at ~Rs. 17-18 crore per annum over the next two years. Capex outlay, while sizeable at ~Rs. 90-100 crore over the next two years, would be funded through a mix of existing liquidity, internal accruals and some incremental bank borrowings.

## Rating sensitivities

**Positive factors –** The rating could be upgraded if the entity shows an improvement in margins, while continuing to expand its operations and maintaining its comfortable balance sheet and credit metrics.

**Negative factors –** The rating could be downgraded in case of considerable degrowth in the revenue base of the entity, or if deterioration in margins leads to adverse impact on key credit metrics (interest coverage falling below 4.0 times on a sustained basis). Moreover, any large debt-funded capex or stretch in working capital cycle that weakens the liquidity profile may necessitate a negative rating action.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Auto Component Suppliers |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial statements of ACPPL. |

## About the company

Established in 1983, ACPPL is based out of Pune, Maharashtra, and is engaged in manufacturing sheet metal components for OEMs such as TML, M&M, JLR and BAL, among others, for diversified automotive segments such as PVs, 2Ws, LCVs, heavy trucks and tractors. Chassis components, assembly parts, tubular structures, etc, are a few of its key product offerings. It was established as a proprietorship company in 1983 and subsequently converted to a private limited company in 2006. The company currently has manufacturing units in Chakan (Maharashtra) and Pantnagar (Uttarakhand). It plans to expand its capacity by setting up two more plants at Chakan and Sanand (Gujarat) in the coming years.

### Key financial indicators

| ACPPL | FY2022 Audited | FY2023 Provisional |
|---|---|---|
| **Operating Income (Rs. crore)** | 735.5 | 1,036.2 |
| **PAT (Rs. crore)** | 19.7 | 30.0 |
| **OPBDIT/OI (%)** | 6.5% | 6.1% |
| **PAT/OI (%)** | 2.7% | 2.9% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 2.0 | 1.7 |
| **Total Debt/OPBDIT (times)** | 2.7 | 2.0 |
| **Interest Coverage (times)** | 5.5 | 6.5 |

*Source: ACPPL, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

| | Instrument | Current Rating (FY2024) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2023 (Rs. crore) | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | May 29, 2023 | - | February 25, 2022 | November 4, 2020<br>July 7, 2020 |
| 1 | Term Loan | Long- Term | 47.71 | 46.80 | [ICRA]A- (Stable) | - | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) |
| 2 | Working Capital Facilities | Long-Term | 121.00 | 51.30 | [ICRA]A- (Stable) | - | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) |
| 3 | Unallocated Limits | Long- Term | 1.29 | NA | [ICRA]A- (Stable) | - | [ICRA]BBB+ (Stable) | [ICRA]BBB (Stable) |
| 4 | Non-Fund Based Limits | Short-Term | 60.00 | NA | [ICRA]A2+ | - | [ICRA]A2 | [ICRA]A3+ |

*Source: Company*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Term Loan | Simple |
| Working Capital Facilities | Simple |
| Unallocated Limits | Not appliable |
| Non-Fund Based Limits | Very simple |

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-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loans | Dec-2021 | NA | Dec-2028 | 47.71 | [ICRA]A-(Stable) |
| NA | Cash Credit | NA | NA | NA | 121.00 | [ICRA]A-(Stable) |
| NA | Short Term – Non Fund Based Facilities | NA | NA | NA | 60.00 | [ICRA]A2+ |
| NA | Long Term – Unallocated Limits | NA | NA | NA | 1.29 | [ICRA]A-(Stable) |

***Source:*** *Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure-2: List of entities considered for consolidated analysis – Not applicable

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