March 15, 2023

Tech Auto Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/ Cash Credit	7.40	7.40	[ICRA]A-(Stable); reaffirmed
Short-term – Non-fund Based	0.10	0.10	[ICRA]A2+; reaffirmed
Total	**7.50**	**7.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in ICRA's expectations that Tech Auto Private Limited's (TAPL) established business position as one of the leading suppliers of sprockets and sprocket assemblies to TVS Motor Company Limited (TVS Motor) in the domestic market will continue. The ratings further favourably factor the revival in TAPL's performance FY2022 and FY2023 mainly on account of pent-up demand for two-wheelers (2Ws) after witnessing moderation at the onset of the pandemic. However, volumes still remain moderate as compared to pre-Covid levels. TAPL's financial profile remains healthy with a low gearing, strong coverage indicators with moderate working capital cycle and free cash balances. While the company's long-term debt has marginally declined in FY2023 from the levels of FY2022; and is expected to increase, going forward, owing to capex for diversifying into the aftermarket and electric vehicle (EV) compliant products. ICRA expects TAPL's coverage indicators to moderate but remain comfortable on the back of limited debt levels. The ratings continue to positively factor in TAPL's long operating history with the extensive experience of its promoters in the 2W industry.

The rating strengths are partially offset by TAPL's modest scale of operations, which limits its ability to derive benefits from economies of scale. The ratings are also constrained by the company's high dependence on the domestic 2W industry, which accounts for more than 50% of its revenues, thereby exposing its performance to the cyclicality inherent to the sector. Moreover, ICRA expects the long-term demand prospects of the company to be impacted by the growing EV penetration in the market. ICRA notes that TAPL is making efforts to foray into products for the EV segment. However, the quantum of revenue towards EVs will be nominal initially and scaling it up will remain critical. Also, TAPL is putting efforts into diversify further and to reduce its dependence on TVS Motor gradually with client addition catering to other OEMs, particularly in the replacement market. The ratings consider the intense competition from other domestic incumbents, which impacts the pricing power with the OEMs. The ratings also factor in the susceptibility of TAPL's margins to fluctuations in raw material prices and foreign currency. ICRA also notes buyback of shares resulting in ~Rs. 9.6 crore of net worth dilution and any further buybacks and substantial dividend pay-outs will remain a key sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that TAPL will continue to benefit from the experience of the promoters in the industry, along with its long association with TVS Motor. This apart, scaling up of new businesses is also expected to augur well for the company.

Key rating drivers and their description

Credit strengths

Experienced promoters with well-established relationship with TVS Motor – The promoters and their families have been involved in the auto component manufacturing industry for more than three decades. In addition, TAPL is one of the leading suppliers of sprockets and sprocket assemblies to TVS Motor and has been associated with it for over 15 years. It has managed to consistently gain business share on the back of regular investments in capacities and maintaining quality standards.

Comfortable financial risk profile – TAPL maintained a strong capital structure as reflected by a negative net debt position as on March 31, 2022. Despite volatility in the top line in FY2021 and limited increase in the top line in FY2022 owing to the sluggishness in the domestic auto sector amid the Covid-19 pandemic, the company's coverage indicators remained strong because of controlled debt levels. Despite additional term loan availed in the current fiscal and increased repayments as well as a share buyback of ~Rs. 9.6 crore, the coverage indicators are expected to remain comfortable. This apart, the liquidity continues to be adequate with healthy free cash balances. The company has already achieved ~Rs. 120 crore of revenue with an operating profit of Rs. 14.5 crore in 9M FY2023. The top line in current fiscal is expected to be marginally higher than FY2022, while the profitability is expected to be in line with the previous years.

Diversification towards other business verticals augur well for the future – To reduce the company's dependence on the 2W industry and TVS Motor, the company has started diversifying towards developing Pressure Die Casts (PDCs) based products for EVs. However, in FY2023, the overall contribution will be nominal, and the company is expected to scale up gradually. The company is also looking forward to diversifying its revenues by entering replacement market for the sprockets for other 2W OEMs. The diversification towards new products and clients augurs well for the company for the future.

Credit challenges

Moderate scale of operations and vulnerability of revenues to cyclicality in automobile industry – The company's overall scale of operations remains moderate with revenues of ~Rs. 160 crore in FY2022 and is expected to be around similar levels in FY2023. This limits its ability to absorb the fixed overheads effectively and benefit from economies of scale. Moreover, TAPL derives a major part of its revenues from the 2W segment, which exposes it to the inherent cyclicality in the automotive industry. Furthermore, post the initial pent-up 2W demand in FY2022, the current demand is still lower than the pre-Covid levels, which continues to remain a concern. Sales of tractor parts, coupled with revenue derived from exports and recently developed divisions are expected to support TAPL's scale, going forward.

Limited presence in EV segment may dampen long-term demand prospects – The company has started looking at other avenues such as EVs and replacement market, to increase its product base and gradually reduce its dependence on TVS Motor. However, both the verticals are at a very nascent stage and the company's ability to scale up in both will continue to remain critical, particularly towards EVs wherein market penetration has been rapid. In case the company is not able to scale up significantly in the EV domain in the medium term, the overall long-term demand prospects may dampen.

High client concentration risk and dependence on 2W industry – TAPL's largest customer, TVS Motor, accounts for about ~60% of its overall revenues, indicating high client concentration risk. TAPL's high dependence on the 2W segment exposes it to the underlying risks in the 2W industry. The company's product portfolio remains concentrated towards sprockets for the 2W segment. Although TAPL has been diversifying its customer and, thereby product portfolio with the inclusion of parts for the tractor industry, as well as exports, the same is yet to gain significant traction. TAPL is equipped with healthy capacity levels and, therefore, expanding to other product lines will not require significant capex.

Profitability exposed to fluctuations in steel price movements – The price of steel, which is the key raw material, moves in tandem with the commodity cycle and, hence, is subject to fluctuations. Any such price fluctuations, which TAPL may not be able to pass on to the customers in its entirety may impact its profitability. Further, with no formal hedging policy in place, the company's profitability remains exposed to adverse fluctuations in foreign currency.

Liquidity position: Adequate

The liquidity position remains **adequate**, supported by sizeable cash balances (~Rs. 16.3 crore as of February 24, 2023), further aided by low utilisation of working capital facilities (which was ~12% against the sanctioned limits of Rs. 10 crore and ~15%

against drawing power of Rs. 7.5 crore in 9M FY2023). While the repayments are expected to increase from FY2023, the cash flows would remain sufficient to meet the funding requirements. The repayments in FY2023 are expected to be Rs. 1.02 crore in FY2022 and Rs. 1.35 crore in FY2024.

Rating sensitivities

Positive factors – TAPL's low scale of operations currently restricts an upgrade in its long-term rating. However, a substantial scale up in revenues over a diversified customer base while maintaining healthy credit metrics and liquidity position on a sustained basis would be considered for a rating upgrade.

Negative factors – The ratings may be revised downwards if there is a material decline in scale and profitability, impacting TAPL's liquidity and credit metrics on a sustained basis. Furthermore, any large debt-funded capex and inability of the company to materially diversify towards the EV segment, resulting in a material deterioration in the credit metrics, may also trigger a rating downgrade. Any further buy back or substantial dividend payout impacting the liquidity may also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Methodology on Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TAPL is primarily involved in manufacturing sprockets and drum sprocket assemblies for 2Ws manufactured by TVS Motor. The company, promoted by Mr. Anil Gupta, began operations from 2001 by manufacturing sprockets from its unit in Ludhiana, Punjab. Thereafter, in 2006, it established a new unit in Hosur, Tamil Nadu, to manufacture drum sprocket assemblies for TVS Motor. Apart from catering to sprockets and sprocket assembly requirements of TVS Motor, a small portion of TAPL's overall revenues is derived from the export of certain sheet metal and tubular components. TAPL is also involved in manufacturing parts for tractors and seating components, which are exported largely to the US and Canada. Recently, the company has also diversified into developing casting parts for EVs as well as sprockets for the aftermarket.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	9M FY2023*
Operating income	134.5	159.8	119.6
PAT	6.2	10.4	7.5
OPBDIT/OI	9.5%	12.1%	12.1%
PAT/OI	4.6%	6.5%	6.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	-
Total debt/OPBDIT (times)	1.4	0.9	-
Interest coverage (times)	11.3	19.4	12.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *provisional results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 15, 2023	Dec 30, 2021	Sep 08, 2020	Apr 02, 2019
1	Cash Credit	Long Term	7.40	7.40	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund Based	Short Term	0.10	0.10	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Term Loan	Long Term	-	-	-	-	[ICRA]A- (Stable); Withdrawn	[ICRA]A- (Stable)
4	Vendor Financing	Short Term	-	-	-	-	[ICRA]A2+; Withdrawn	[ICRA]A2+

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based Cash Credit	Simple
Short Term - Non-Fund Based	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	7.40	[ICRA]A-(Stable)
NA	**Non-fund Based**	NA	NA	NA	0.10	[ICRA]A2+

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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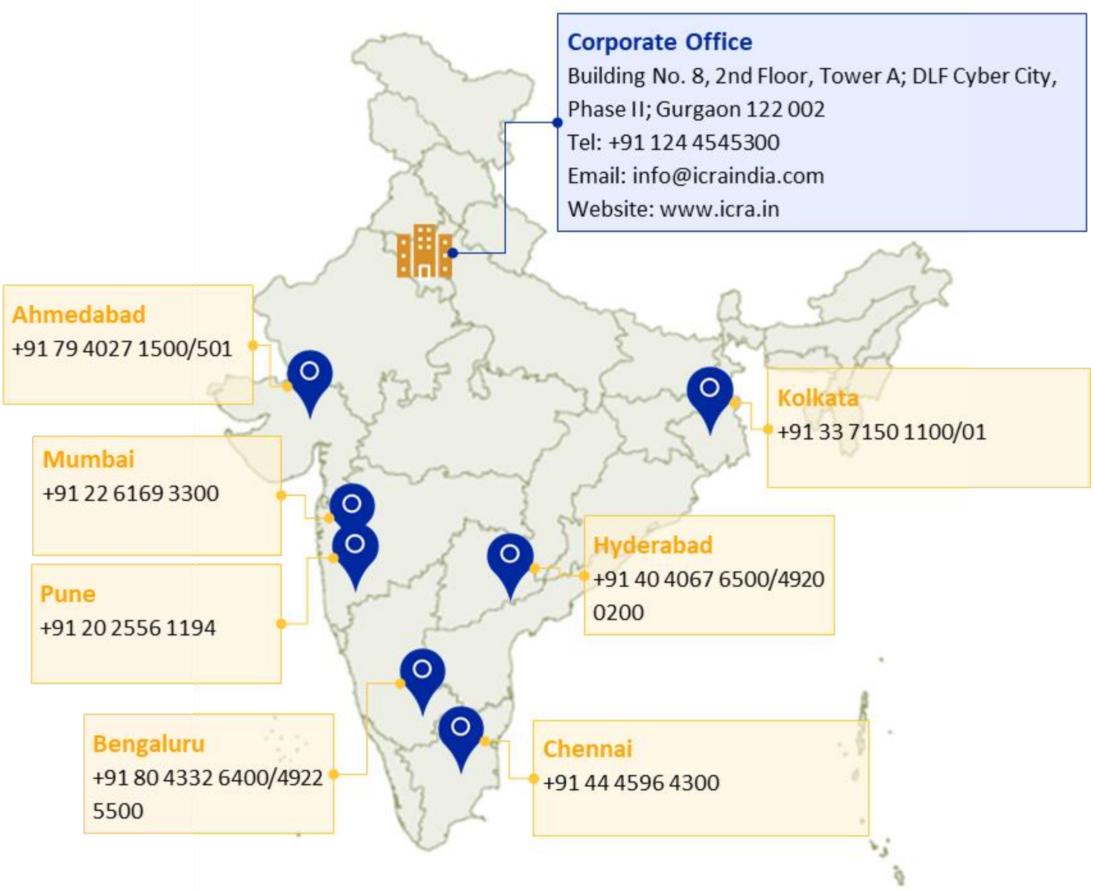

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