

March 28, 2023 (Revised)

Ashley Alteams India Limited: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	57.30	48.85	[ICRA]BBB-; upgraded from [ICRA]BB+; outlook revised to Stable from Positive
Long-term – Fund-based – Cash credit	25.00	25.00	[ICRA]BBB-; upgraded from [ICRA]BB+; outlook revised to Stable from Positive
Long-term – Unallocated	2.70	1.15	[ICRA]BBB-; upgraded from [ICRA]BB+; outlook revised to Stable from Positive
Short-term – Fund-based facilities	40.00	50.00	[ICRA]A3; upgraded from [ICRA]A4+
Short-term – Sub-limit facilities	(45.00)	(52.00)	[ICRA]A3; upgraded from [ICRA]A4+
Total	125.00	125.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade factors in the improvement in the operational and financial profiles of Ashley Alteams India Limited (AAIL/the company) in FY2023e and expectation of a sustained performance in the medium term. Following two years of sluggish demand, the company's performance improved in 11M FY2023, evident from the healthy revenue growth of 43% YoY (annualised) with strong recovery in demand in end-user demand segments. This, coupled with softened input prices in the recent quarters, supported healthy improvement in margins (11.5% in FY2023e) and net cash accruals. In the absence of any major debt-funded capex, AAIL's debt indicators improved with estimated Total Debt to OPBDITA at less than 3.0 times and interest cover at ~3.0 times as of March 2023. The ratings remain supported by the continued support (both operational and financial) and commitment of the JV partners, Ashok Leyland Limited (ALL; rated [ICRA]AA (Stable) / [ICRA]A1+) and Alteams OY (AOY), Finland, and the vast experience of the management. AAIL enjoys strong financial flexibility with the lenders, given its strong parentage.

The ratings also consider the strong customer base of the company, diversified presence across industries and expected stability in its revenues with a favourable demand environment amid better economic activities. The ratings, however, remain constrained by high customer concentration with the top-three customers driving ~75% of sales, and vulnerability of its earnings and revenues to the cyclical in the auto sector and sharp fluctuations in commodity prices.

The Stable outlook on the long-term rating considers the favourable demand environment in the domestic market for its products from end-user segments, its criticality to its customers (specifically ALL) in the aluminium die-casting business, thus auguring well for the company.

Key rating drivers and their description

Credit strengths

Strong parentage with advanced technological and operational/management support from both promoters; need-based financial support from JV partners – Incorporated in 2007, AAIL is a 50:50 JV between AOY and ALL. ALL is the second-largest manufacturer in the medium and heavy commercial vehicles (M&HCV) segment in India, and AAIL is a critical high-pressure aluminium die-cast supplier for ALL. In 11M FY2023, AAIL derived 43% of its total revenue from ALL. The company also receives technical support from AOY, part of the Alteams Group, one of the leading manufacturers of cast-light metal components to the global telecommunication industry. Its association with AOY has helped the company gain orders from its reputed clientele in the telecom sector. AAIL continues to receive operational and financial support from its JV partners. AOY provides

technological support, while ALL provides managerial support to the company. In addition, AAIAL receives need-based financial support from its JV partners through equity or trade advances, as observed in the past.

Strong operational profile with diversified presence across industries with reputed clientele – AAIAL's business risk profile is strongly supported by the JV partners' vast experience and the company's established presence in the industry, supplying components to diverse end-user industries, namely automotive (70% of total revenues in 11M FY2023), telecom (25%) and industrial (5%). In 11M FY2023, the company's revenues and volumes witnessed an improvement by 44% and 45% (annualised basis), respectively, on account of improved demand post the pandemic and better realisations. AAIAL's debt indicators improved with estimated Total Debt to OPBDITA at less than 3.0 times and interest cover of ~3.0 times as of March 2023.

Favourable demand outlook to support revenue growth - The demand outlook for its end-user segments (both auto and telecom) is favourable, given the improving macroeconomic and regulatory environment, which will accordingly support AAIAL's revenues and earnings. AAIAL also has a reputed client profile with whom it enjoys established relationships, which, coupled with addition of business with its existing customers and addition of new customers, provides stable revenue visibility over the medium term.

Credit challenges

High customer concentration risk – AAIAL derives ~75% of its revenues from its top-three customers — ALL, Nokia Solution Networks and Tata Cummins Limited—and ~90% from its top-five customers. Although the risk is mitigated to an extent as ALL is a 50% JV partner, a fallout with any of its key clients can have a major impact on the company's revenues and, eventually, on its profitability.

Revenue and earnings vulnerable to cyclical in auto sector and sharp fluctuations in commodity prices – AAIAL derives 70% of its revenues from the cyclical auto sector and 25% from the telecom sector, which exposes it to fluctuations in demand in these segments. AAIAL's profit margins are susceptible to fluctuations in the prices of raw materials, primarily aluminium alloy, although price-escalation clauses with customers partially mitigate the risk.

Liquidity position: Adequate

AAIAL's liquidity is adequate with improving cash flows from operations and increasing net cash accruals (of Rs. 22.4 crore in 11M FY2023 against Rs. 10.8 crore in FY2022), although cash and bank balances remain low. AAIAL has capex plans of Rs. 10.0 crore in FY2024 to be funded through term loans and has debt repayment obligations of Rs. 27.0 crore in FY2024. ICRA expects the improving accruals and cash flows to support debt repayments in a timely manner. Further, the company had unused working capital facilities of Rs. 12.3 crore as on February 28, 2023. The JV parent, ALL has supported the entity by way of any need-based trade advances and equity infusions, in the past.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings, if it demonstrates sustained improvement in revenues, profit margins and debt metrics (with Total Debt/OPBDITA of less than 2.5 times on a sustained basis), which helps strengthen the financial risk profile.

Negative factors – Pressure on AAIAL's ratings could arise, with deterioration in its credit profile on a sustained basis (with DSCR being less than 1.0 times), or the absence of promoter support in a timely manner. Any weakening in the operational or financial linkage with the parent entities could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Impact of Parent or Group Support on an Issuer's Credit Rating

Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AAIL, incorporated in 2007, is a 50:50 JV between Ashok Leyland Limited and Alteams OY. AAIL produces high-pressure aluminium die castings from its foundry and machine shop at Cheyyar in Tamil Nadu (90 km from Chennai). The foundry has an installed production capacity of 11,500 MT, with the capability to produce high-pressure die-casting components ranging from 0.2–45 kg.

ALL is the second-largest commercial vehicle manufacturer in India, while AOY is a Finnish light metal casting company with operations in Finland, Sweden, Estonia, and China. The Alteams Group is the world's largest manufacturer of cast light metal components for the telecommunications industry. The Alteams Group, in turn, forms part of Kuusakoski OY (a Finland-based, international re-cycling company with a turnover of € 486 million in CY2020).

Key financial indicators (audited)

Ashley Alteams India Limited	FY2022	11M FY2023*
Operating income	212.6	279.8
PAT	1.0	11.5
OPBDIT/OI	9.9%	11.5%
PAT/OI	0.5%	4.1%
Total outside liabilities/Tangible net worth (times)	21.3	9.2
Total debt/OPBDIT (times)	5.5	2.7
Interest coverage (times)	2.0	2.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore; * Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Mar 28, 2023	Dec 19, 2022	Feb 07, 2022	Oct 19, 2020	Oct 09, 2019
1	Long-term – Term loans	Long-term	48.85	48.85	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)
2	Long-term – Fund Based – Cash Credit	Long-term	25.00	12.70	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)
3	Long-term – Unallocated	Long-term	1.15	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	-	[ICRA]BB+ (Negative)
4	Short-term- Fund based facilities	Short Term	50.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5	Short-term – Unallocated	Short Term	-	-	-	-	[ICRA]A4+	[ICRA]A3

6	Short-term - sub-limit facilities	Short Term	(52.00)	(38.9)	[ICRA]A3	[ICRA]A4+	-	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term loans	Simple
Long-term – Fund Based – Cash credit	Simple
Long-term – Unallocated	NA
Short-term- Fund based facilities	Simple
Short-term - sub-limit facilities	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	Term loan 1	July 2018	9.75%	Aug 2024	14.00	[ICRA]BBB-(Stable)
NA	Term loan 2	July 2019	8.76%	Oct 2023	4.50	[ICRA]BBB-(Stable)
NA	Term Loan 3	Dec 2020	9.24%	Nov 2024	4.85	[ICRA]BBB-(Stable)
NA	Working Capital Term Loan	Dec 2020	9.40%	Nov 2024	10.50	[ICRA]BBB-(Stable)
NA	Term Loan 4	Dec 2021	8.65%	Dec 2025	15.00	[ICRA]BBB-(Stable)
NA	Cash credit facilities	NA	-	-	25.00	[ICRA]BBB-(Stable)
NA	Unallocated	NA	-	-	1.15	[ICRA]BBB-(Stable)
NA	Sale bill discounting	NA	9.35%	NA	42.00	[ICRA]A3
NA	Purchase bill discounting (sublimit)	NA			(7.00)	[ICRA]A3
NA	Short-term fund based	NA	-	-	8.00	[ICRA]A3
NA	EPC/PCFC/FBP/FBD/ERBD (sublimit)	NA			(25.00)	[ICRA]A3
NA	Letter of credit (sublimit)	NA			(15.00)	[ICRA]A3
NA	Bank guarantee (sublimit)	NA			(5.00)	[ICRA]A3

Source: Company

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

Link to Impact of Parent or Group Support on an Issuer's Credit Rating methodology has been added in the Applicable rating methodologies table.

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