

September 26, 2023

Aditya Auto Products & Engineering (I) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loan	24.00	24.00	[ICRA]BBB+ (Stable); Reaffirmed
Long-term – Fund-based/ CC	81.35	81.35	[ICRA]BBB+ (Stable); Reaffirmed
Short-term – Fund-based	20.00	-	-
Short-term-Non-fund based	16.25	16.25	[ICRA]A2; Reaffirmed
Unallocated limits	-	20.00	[ICRA]A2; Reaffirmed
Total	141.60	141.60	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Aditya Auto Products & Engineering (I) Private Limited (Aditya Auto/the company) continues to consider the vast experience of the promoters in the automotive industry and the strong operational profile backed by its established relationships with various original equipment manufacturers (OEMs) and Tier-1 players. The company raised equity of Rs. 76 crore during FY2022-FY2023 and Rs. 60 crore in Q1 FY2024, which resulted in the improvement in the company's debt indicators and liquidity position. Supported by this equity infusion, the company reduced its working capital utilisation, thereby increasing the undrawn working capital limits to ~Rs. 63 crore as on August 31, 2023, from ~Rs. 18 crore as on September 30, 2022. However, investments for its capex and working capital requirements to support increasing scale of operations could lead to increase in working capital utilisation to a certain extent in the near term. ICRA notes the overall improvement in debt metrics following the equity infusion.

The company's revenues witnessed growth of 23% in FY2023¹, supported by volume growth and increase in orders from new customers. However, OPBDITA declined to Rs. 26 crore (OPM of 4.5%) in FY2023 from Rs. 30.9 crore (OPM of 6.6%) in FY2022 due to impact of high cost of materials (mainly semiconductors and bought-out components) which was not fully passed on to customers and one-time cost of ~Rs. 2 crore. However, with moderation in cost of few materials and price corrections from customers to a certain extent, the company witnessed expansion in OPM to 6.5% on revenues of Rs. 145.7 crore during Q1 FY2024. Going forward, with a favourable order book, coupled with orders for new programmes (with better realisations) from existing customers, customer additions, and addition of switched reluctance motors (SRMs) in its product portfolio (for automotive and non-automotive applications), healthy revenue growth and improvement in profitability margins are expected over the near to medium term.

The ratings remain constrained by the company's moderate debt metrics and working capital intensity as of March 31, 2023. The ratings also consider the high customer concentration risk of the company (with its top three customers driving ~51% of its revenues in FY2023); however, established relationships with large OEMs support its revenue visibility to a certain extent. Further, the ratings are constrained by the vulnerability of its earnings to competition from larger players and the inherent cyclicality of demand in the automotive industry.

¹ FY2023 numbers mentioned are provisional in nature

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its strong business profile supported by the established relationships with major automotive players.

Key rating drivers and their description

Credit strengths

Strong operational profile and extensive promoter experience – The company enjoys an established relationship with its client base of major global and domestic OEMs and Tier-I players like Mahindra & Mahindra Limited (M&M), Lear Corporation, and Maruti Suzuki India Limited, among others. It is also supplying to Volkswagen and Renault Nissan Automotive from FY2021. Under the window regulator segment, the company supplies to majority of the OEMs and enjoys preferred vendor/ sole supplier status with some of its customers like M&M and Volkswagen. Further, with the launch of SRMs and increase in capacity of window lift motors, the motor segment is likely to witness substantial improvement; however, the execution of orders and the corresponding margin improvement remains one of the key monitorables. Also, ICRA believes Aditya Auto will continue to benefit from its promoter support, leading to better diversification in terms of product profile and geographic diversification.

Equity infusion supported cash flows – A global private equity (PE) investment firm has invested Rs. 80 crore in the company during the period FY2022-Q1 FY2024. Further, it received equity infusion of Rs. 6 crore from an investment firm and Rs. 50 crore from a renowned investment management vehicle during Q4 FY2023 and Q1 FY2024, respectively. This has supported the improvement in Aditya Auto's liquidity position. The equity was utilised largely for reduction in working capital utilisation (~Rs. 80 crore) and the balance for capex / investment requirements.

Credit challenges

Moderate financial profile – The company's financial profile is characterised by moderate debt metrics and working capital intensity. Aditya Auto has witnessed improvement in its scale of operations in FY2023, however, there has been contraction in operating margins due to impact of high material cost, which could not be passed on entirely to its customers. While OPM in 9M FY2023 was ~5.9%, the steep increase in cost of materials led to operating loss in Q4 FY2023. Further, the company had incurred one-time legal and transaction cost of ~Rs 2 crore in FY2023, thereby contracting the overall OPM to ~4.5% in FY2023. The debt metrics remained moderate, with net debt/OPBDITA of 4.1x as on March 31, 2023 (against 5.0x as on March 31, 2022) and interest coverage of 2.3x during FY2023 (over 2.2x during FY2022). ICRA notes that the company has witnessed expansion in operating margins in Q1 FY2024 (200 bps) supported by moderation in cost of few materials and price corrections from customers to a certain extent. However, the continued impact on profitability due to commodity pricing pressures resulted in additional cost of ~Rs. 2.5 crore. Further, apart from the material price increase, the company also incurred an additional one-time cost of ~Rs. 2.8 crore towards legal and transaction costs for the recent fund raise in Q1 FY2024. The commodity pricing pressures are expected to ease to a large extent from H2 FY2024 due to supplier renegotiations. Also, the company is expected to receive pricing corrections from most of its existing customers from H2 FY2024. The improvement in operating profits, coupled with equity infusion, has led to improvement in debt metrics, i.e., extrapolated net debt/OPBDITA of 1.7x as on June 30, 2023, and interest coverage of 2.3x during Q1 FY2024. However, the sustenance of the margins and debt metrics will remain one of the key monitorables.

High customer concentration risk – With its top three customers generating ~51% of its revenues in FY2023 and ~52% in FY2022, the company's customer concentration risk remains high. However, Aditya Auto enjoys strong relationships with its clientele, providing stability to its order flow. With new products added to its portfolio, the company is expected to increase penetration in the existing customer base and add new customers, thereby moderating its customer concentration risk over the near to medium term.

Exposure to cyclicity inherent in domestic auto sector – With the domestic market driving ~90% of its revenues in FY2023, the company is primarily a domestic player. Further, since its revenues are derived entirely from the automotive segment, Aditya Auto's revenues and earnings are vulnerable to the Indian auto industry cycles, as seen in the past. While the export

revenues had been impacted during last two years due to market conditions in Europe, the same is expected to improve over the near to medium term with new customer additions and products.

Liquidity position: Adequate

The company's liquidity position is adequate, characterised by cash and liquid investments of ~Rs. 10 crore as on August 31, 2023. The company raised equity of Rs. 76 crore during FY2022-FY2023 and Rs 60 crore in Q1 FY2024, which resulted in the improvement in its liquidity position. The average working capital utilisation was ~66% for the last 12-month period ending August 31, 2023. Supported by this equity infusion, the company has reduced its working capital utilisation, thereby increasing the undrawn working capital buffer to ~Rs. 63 crore as on August 31, 2023 from ~Rs. 18 crore as on September 30, 2022. That said, investments for its capex and working capital requirements to support increasing scale of operations could lead to increase in working capital utilisation in the near term. The company has debt repayments of Rs. 5.9 crore for the period September 2023–March 2024 and Rs. 5.2 crore for FY2025, which is expected to be serviced through internal accruals. In terms of capex, the company is expected to spend ~Rs. 50-55 crore over the next three years for capacity expansions (including machinery purchases), SRM project-related investment and maintenance capex. ICRA notes that the debt repayment obligations and capital commitments are expected to be met through existing liquidity and internal accruals.

Rating sensitivities

Positive factors – The ratings would be upgraded if the company demonstrates sustained improvement in its scale of operations, operating and net margins, working capital cycle and debt metrics.

Negative factors – The ratings could be downgraded in case of pressure on the credit metrics arising from lower profit margins and a longer working capital cycle impacting the liquidity profile. Any large debt-funded capital expenditure weakening the credit metrics will also trigger a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Aditya Auto.

About the company

Aditya Auto manufactures and sells door and access systems, wiring harness assemblies and connectors primarily for automotive applications. The company was set up in 1996 by the promoter, Mr. C Jayaraman, and commenced operations from 2000 for the export of wiring harness assemblies to OEMs in Europe. It subsequently diversified into the manufacturing doors and access systems (automatic/manual window regulators and door latches) through the acquisition of the related business of Arvin Meritor in 2001. Aditya Auto has also actively focused on backward integration for manufacturing input components for doors and access systems and has a separate components division for supplying input materials. The components division includes—(i) injection moulding, cold forging, and fine blanking processes at its Trichy plant, which was commissioned in 2008; (ii) manufacturing of small starter motors at its Doddaballapur plant, which was commissioned in 2010; and (iii) a stamping facility at the Doddaballapur plant, which was commissioned in 2010. From FY2012, Aditya Auto backward integrated further into manufacturing tools and dyes with the acquisition of the facilities of Nettur Technical Training Foundation in Bengaluru, an erstwhile vendor of the company. The promoter family had an equity stake of 68.4% in the company and the global PE investment firm had a stake of 18.1%, as on May 15, 2023.

Key financial indicators (audited)

Aditya Auto Consolidated	FY2022	FY2023*
Operating income	468.6	577.2
PAT	2.0	10.2
OPBDIT/OI	6.6%	4.5%
PAT/OI	0.4%	1.8%
Total outside liabilities/Tangible net worth (times)	2.4	1.5
Total debt/OPBDIT (times)	5.1	4.8
Interest coverage (times)	2.2	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations; *provisional

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 4 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
				Sep 26, 2023	June 27, 2022	-	Mar 25, 2021	May 4, 2020	
1 Term Loan	Long Term	24.00	15.30	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
2 Fund based/CC	Long Term	81.35	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	
3 Fund based	Short Term	--	--	--	[ICRA]A2	-	[ICRA]A2	[ICRA]A2	
4 Non- fund based	Short Term	16.25	--	[ICRA]A2	[ICRA]A2	-	[ICRA]A2	[ICRA]A2	
5 Unallocated	Short Term	20.00	--	[ICRA]A2	-	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Term Loan	Simple
Long Term-Fund based/CC	Simple
Short Term-Non- fund based	Simple
Unallocated limits	Not Applicable

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term-Term Loan	Dec 2018/ Jan 2021	NA	FY2024/FY2027	24.00	[ICRA]BBB+ (Stable)
NA	Long Term-Fund based/CC	NA	NA	NA	81.35	[ICRA]BBB+ (Stable)
NA	Short Term-Non- fund based	NA	NA	NA	16.25	[ICRA]A2
NA	Unallocated limits	NA	NA	NA	20.00	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Synedyn Systems Private Limited	91.57%	Full Consolidation
Rehans Graphics Private Limited	99.97%	Full Consolidation
Aditya Avartan Technologies Private Limited	96.20%	Full Consolidation
Edscha Aditya Automotive Systems Private Limited	50.00%	Proportional Consolidation
Aditya Entuple E Motors Private Limited	72.00%	Full Consolidation

Note: Company discussions

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