February 19, 2024

ABI-Showatech (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term Loan	107.00	97.00	[ICRA]A+ (Stable); Reaffirmed
Long Term – Fund Based – Cash Credit	55.00	55.00	[ICRA]A+ (Stable); Reaffirmed
Short-Term – Non-Fund Based Limits	20.00	20.00	[ICRA]A1; Reaffirmed
Long-Term/Short-Term – Unallocated Limits	31.00	0.00	-
Total	**213.00**	**172.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation on the bank lines of ABI-Showatech (India) Private Limited (ABI) considers the company's stable credit profile and expectations of sustained performance over the medium term, supported by its strong business profile, operational capabilities, and vast experience of promoter group in the automotive industry. Following a strong growth (~25%) in operating income in FY2023, ABI's standalone revenue grew by ~10% YoY in 9M FY2024 led by favourable demand. With scale benefits, softer input prices and cost-control measures, its operating margins expanded to 14.6% in 9M FY2024 (against 13.5% in FY2023) while debt metrics remain comfortable at Total Debt to OPBDITA estimated at ~1.0-1.3 times for FY2024.

The ratings remain supported by ABI's healthy financial flexibility and its process capabilities in aluminium gravity die-casting, billet milling and machining of complex components for turbochargers. ABI is a supplier of key components for the turbocharger industry, namely bearing housing, turbine housing, compressor housing, turbine wheel, and compressor wheel to name a few, which are supplied to large turbocharger manufacturers, such as Turbo Energy Private Limited (TEPL), and Borg Warner Turbo Systems Worldwide GmbH (BW). The ratings factor in the continued trade support from its Group companies—TEPL and Brakes India Private Limited (BIPL). To reduce dependence on the turbocharger segment, ABI has made investments towards entry into the aerospace industry which will support business diversification over the long term. It has also invested in Stellar Optics Private Limited (Stellar), which manufactures industrial grade lenses, to reduce long-term dependence on the auto sector. Its investments in the aerospace segment business in recent years are also aimed at the same, although material revenue growth is yet to be seen.

ICRA notes ABI's wholly-owned subsidiary, Ross Casting & Innovation LLC (Ross) was liquidated in November 2023 and the business has been transferred to ABI. The proceeds from the liquidation were applied for reduction in working capital debt, capex needs and investment purposes. Following the liquidation of Ross, ICRA has considered the standalone financials for analysis (via-a-vis the consolidated approach adopted in the past) apart from considering the investment in other non-auto businesses.

The ratings also consider the vulnerability of ABI's earnings to any slowdown in automotive demand. It also faces customer concentration risk with its top-two customers accounting for ~60-65% of the revenues in FY2023 and 9M FY2024. However, the established relationships with the customers (predominantly Group companies) and strong operational linkages with such clients mitigate the risk to an extent. Further, ABI's products could face long-term threat from the development of alternative vehicle architectures like electric vehicles, which do not use turbochargers. Nevertheless, diversification into the aerospace sector shall mitigate this risk in the long term by reducing dependence on the auto sector.

The Stable outlook on the rating reflects ICRA's expectations that ABI will continue to record healthy operational and financial performances, aided by its strong parentage and healthy market position with the various tier-I manufacturers.

Key rating drivers and their description

Credit strengths

Healthy financial profile – ABI's revenues improved by 25% to Rs. 775.4 crore in FY2023 aided by ~10% growth in volumes and improved realisations, as increased raw material costs were passed on to customers. ABI's performance in 9M FY2024 remained healthy with revenues at Rs. 641.6 crore. Operating margins improved to 14.6% in 9M FY2024 from 13.5% in FY2023 aided by scale benefits and cost-control mechanisms. The company's revenue and margins will further improve with the transfer of Ross' business on account of its liquidation in November 2023. ABI's gearing remained strong at 0.3 times with DSCR of 3.0 times as on December 31, 2023. However, with sizeable investments in the aerospace segment, RoCE levels are currently low, though they are expected to improve going forward.

Sales to established players in export market and to Group companies in domestic market resulting in recurring revenues – ABI supplies machined turbocharger components namely bearing housing, turbine housing, compressor housing, turbine wheel, and compressor wheel to TEPL and BW, leading manufacturers of turbochargers in the domestic and global markets, respectively. It also supplies machined brake components to the ZF Group and BIPL. Its long presence and strong relationships with reputed clientele have aided revenue growth over the years.

Entry into aerospace segment to support business diversity over long term – The company invested ~Rs. 140 crore in the aerospace sector in the recent years, which will insulate it from any potential long-term risks like increased adoption of EV vehicles by diversifying its revenue base away from the auto segment. ABI's acquisition of Stellar, which manufactures industrial grade lenses, strengthens its aerospace segment business, which is expected to reduce dependence on auto demand over the long term.

Credit challenges

Revenues and earnings vulnerable to any automotive demand slowdown - Given its large dependence on the automotive segment, ABI's revenues and earnings are susceptible to the cyclicality in automotive demand from both the domestic and export markets. Going forward, its earnings shall remain exposed to any sharp slowdown in automotive demand apart from major volatility in raw material prices and forex rates.

High customer concentration – The company faces customer concentration risk with its top-two customers accounting for ~60-65% of the revenues in FY2023 and 9M FY2024. However, established relationships with the customers (predominantly Group companies) and strong operational linkages mitigate the risk.

Technological changes such as transition to EVs may impact revenue in the long term – ABI derives more than two-thirds of its revenues from sale of turbocharger components to the domestic and export markets. It faces a potential threat from the development of alternative vehicle architectures like electric vehicles, which do not use turbochargers. Diversification into the aerospace sector is, however, expected to mitigate this risk in the long term by reducing dependence on the auto sector.

Liquidity position: Adequate

ABI's liquidity is adequate and is expected to generate retained cash flows of Rs. 70-80 crore in FY2025. It has a repayment obligation of Rs. 27.2 crore and a planned capex of Rs. 50-75 crore over the next one year. Against this, the company has availed term loans of Rs. 40.0 crore in the current year and has cash and liquid balances of Rs. 28.5 crore along with buffer in working capital limits of 26.8 crore as on December 31, 2023. Its average working capital utilisation was ~67% in the last one year against the sanctioned lines.

Rating sensitivities

Positive factors – ICRA could upgrade ABI's ratings if the company demonstrates a sustained improvement in scale and profitability while diversifying its revenue base from non-automotive segments.

Negative factors – Negative pressure on ABI's ratings could arise if the company witnesses sustained deterioration in top line and operating profits, leading to weakening of debt protection metrics and profitability. A specific credit metric which could lead to downgrade include TD/OPBITDA of more than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

ABI-Showatech (India) Limited, subsequently converted to ABI-Showatech (India) Private Limited (ABI) is a tier-II manufacturer involved in casting and machining of precision automotive components for the domestic and export markets. Its process capabilities include aluminium gravity die-casting and CNC machining. ABI primarily caters to the global turbocharger market, where it exports to BorgWarner Inc., for the European market and to Turbo Energy Private Limited, a Group company, which is the market leader in the domestic turbocharger market in India.

Key financial indicators (audited)

ABI Standalone	FY2022	FY2023
Operating income	619.6	775.4
PAT	8.8	46.9
OPBDIT/OI	13.3%	13.5%
PAT/OI	1.4%	6.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	2.0	1.2
Interest coverage (times)	18.4	33.8

Source: Company; 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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Feb 19, 2024	Dec 14, 2022	Oct 19, 2021	Nov 27, 2020	May 15, 2020
1	Fund Based – Term Loan	Long term	97.0	97.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund Based – Working Capital Facility	Long term	55.0	48.3	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-Fund Based – Working Capital Facility	Short term	20.0	5.5	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long term/ Short term	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term – Fund Based – Term Loan	Simple
Long Term – Fund Based – Cash Credit	Simple
Short Term – Non-Fund Based Limits	Very Simple
Long-Term/Short-Term – 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term – Fund-Based – Cash Credit	NA	NA	NA	55.0	[ICRA]A+ (Stable)
NA	Short Term - Non-Fund Based	NA	NA	NA	20.0	[ICRA]A1
NA	Long Term – Fund Based – Term Loan	FY2018	NA	FY2026	57.0	[ICRA]A+ (Stable)
NA	Long Term – Fund Based – Term Loan	FY2024	NA	FY2031	40.0	[ICRA]A+ (Stable)

Source: Company

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

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.

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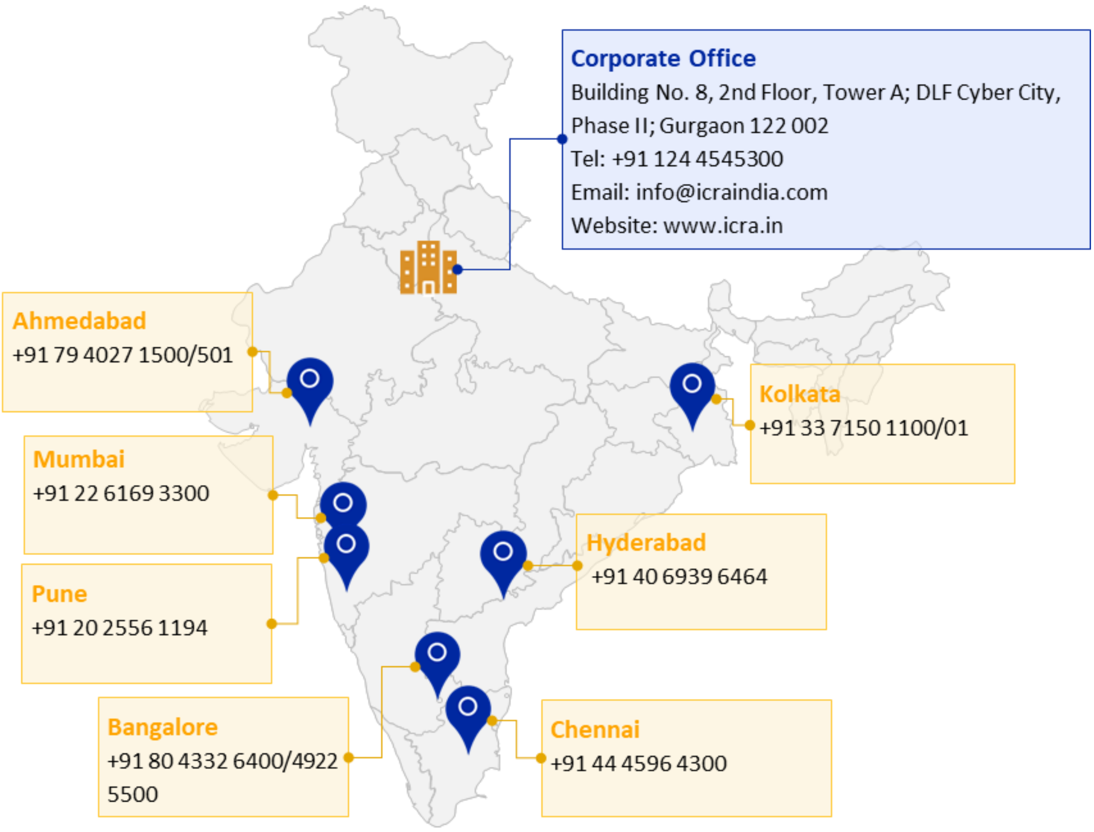

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