August 09, 2024

Ashley Alteams India Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term loan	28.15	28.15	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long Term - Fund Based - Cash Credit	40.00	40.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long Term - Sub limits	(10.00)	(10.00)	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long Term - Unallocated	1.85	1.85	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short Term - Sub limits	(37.00)	(37.00)	[ICRA]A3+; upgraded from [ICRA]A3
Short Term - Fund Based facilities	55.00	55.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in ICRA's expectation that the credit profile of Ashley Alteams India Limited (AAIL) will be strengthened by growth in revenues and earnings, and improvement in debt metrics. Following an 8% fall in FY2024 revenues due to sluggish demand in the telecom segment, the company's revenues grew by ~10% in Q1 FY2025 amid improving demand in the said segment, which accounted for 23% of sales. In FY2025, the company's revenue is estimated to grow in high single digit, led by stable off-take in the telecom and auto segments and contribution from new products. Softening of input prices, coupled with better scale and product mix, is likely to lead to a range-bound operating margin (13-14% likely in FY2025). In the absence of any major debt-funded capex, AAIL's debt indicators improved with an estimated total debt to OPBDITA of ~2.1 times and an interest cover of ~4.2 times as of June 2024. The ratings remain supported by the continued support (both operational and financial) and commitment of the joint venture (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 company's strong customer base, diversified presence across industries and expected stability in its revenues with a favourable demand environment amid better economic activities. However, the ratings remain constrained by high customer concentration, with the top-three customers accounting for ~74% of sales in Q1 FY2025, and vulnerability of its earnings and revenues to the cyclicality in the auto sector as well as sharp fluctuations in commodity prices.

The Stable outlook on the long-term rating considers ICRA's opinion that AAIL will sustain its credit profile, supported by new product expansion, diversified segment presence with a reputed clientele, adequate liquidity position and moderate capex plans.

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 joint venture (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 FY2024, AAIL derived ~50% of its revenue from ALL. The company also receives technical support from AOY, a 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 secure 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, AAIL 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 – AAIL'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 (76% of total revenues in Q1 FY2025), telecom (23%) and industrial (1%). In Q1 FY2025, the company's revenues and volumes witnessed a YoY increase of 45% and 49%, respectively, on account of improved demand in the telecom segment. Further, AAIL's debt indicators improved with total debt to OPBDITA of ~2.1 times and interest cover of ~4.2 times as of June 2024.

Increased wallet share with existing clients to support growth – AAIL has a reputed client profile with which it has established relationships. The company's wallet share with all its major clientele has witnessed a healthy improvement over the last couple of years. Further, the company's long-term revenue prospects for both auto and telecom are favourable, given the healthy product additions to cater to ALL's needs along with new business prospects in the telecom segment pertaining to 5G projects. This, coupled with the addition of business from its existing customers and the addition of new customers, ensures stable revenue visibility over the medium term.

Credit challenges

Exposed to high customer concentration risk – AAIL derives ~74% of its revenues from its top-three customers, ALL, Nokia Solution Networks and Tata Cummins Limited, and ~86% from its top-five customers. Although the risk is mitigated to an extent as ALL is a 50% JV partner, any fallout with one of its key clients could significantly impact the company's revenues and, eventually, its profitability.

Revenue and earnings vulnerable to cyclicality in auto sector and sharp fluctuations in commodity prices – AAIL derives ~76% of its revenues from the cyclical auto sector and ~23% from the telecom sector, exposing it to fluctuations in demand in these segments. AAIL'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

AAIL's liquidity is adequate with expected retained cash flow of Rs. 25-30 crore in FY2025 and increasing net cash accruals (Rs. 30-35 crore expected in FY2025). AAIL has capex plans of Rs. 20.0 crore in FY2025, to be funded through term loans and internal accruals and has debt repayment obligations of Rs. 17.0 crore in FY2025. ICRA expects the improving accruals and cash flows to support debt repayments in a timely manner. Further, the company had a buffer in working capital facilities of Rs. 22.4 crore as on June 30, 2024. The JV parent, ALL, has supported the entity through 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 a sustained improvement in revenues, profit margins and debt metrics (with Total Debt/OPBDITA of less than 2.0 times on a sustained basis), which helps strengthen the financial risk profile.

Negative factors – Pressure on AAIL's ratings could arise, with deterioration in its credit profile on a sustained basis (with DSCR being less than 1.4 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 ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Component](#)
Parent/Group support	JV Parent: Ashok Leyland Limited, rated [ICRA]AA (Stable) / [ICRA]A1+; Ratings are based on implicit support expected to be received from Ashok Leyland Limited
Consolidation/Standalone	Standalone

About the company

AAIL, incorporated in 2007, is a 50:50 JV between Ashok Leyland Limited and Alteams OY. AAIL manufactures 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 11,000 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, is a part of Kuusakoski OY (a Finland-based, international re-cycling company).

Key financial indicators (audited)

Ashley Alteams India Limited	FY2023	FY2024
Operating income	325.1	297.6
PAT	17.5	18.2
OPBDIT/OI	11.8%	14.2%
PAT/OI	5.4%	6.1%
Total outside liabilities/Tangible net worth (times)	6.1	3.2
Total debt/OPBDIT (times)	2.7	2.2
Interest coverage (times)	3.2	3.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
			Aug 09, 2024	Apr 05, 2024	-	Mar 28, 2023	Dec 19, 2022	Feb 07, 2022
Term loans	Long-term	28.15	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Negative)
Cash Credit	Long-term	40.00	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Negative)
Unallocated	Long-term	1.85	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	-
Sub-limit facilities	Long-term	(10.00)	**[ICRA]BBB (Stable)**	[ICRA]BBB- (Stable)	-	-	-	-
Fund based facilities	Short-term	55.00	**[ICRA]A3+**	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
Sub-limit facilities	Short-term	(37.00)	**[ICRA]A3+**	[ICRA]A3	-	[ICRA]A3	[ICRA]A4+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based – Term loans	Simple
Long-term – Fund Based – Cash credit	Simple
Long-term – Unallocated	NA
Long-term - sub-limit facilities	Simple
Short-term- Fund based facilities	Very 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	9.95%	Aug 2024	5.30	[ICRA]BBB (Stable)
NA	Term Loan 2	Dec 2020	9.24%	Nov 2024	1.85	[ICRA]BBB (Stable)
NA	Working Capital Term Loan	Dec 2020	9.40%	Nov 2024	4.50	[ICRA]BBB (Stable)
NA	Term Loan 3	Dec 2021	8.65%	Dec 2025	6.50	[ICRA]BBB (Stable)
NA	Working capital Term Loan	Dec 2023	-	-	10.00	[ICRA]BBB (Stable)
NA	Cash credit facilities	NA	-	-	40.00	[ICRA]BBB (Stable)
NA	Working capital Demand Loan (sublimit)	NA	-	-	(10.00)	[ICRA]BBB (Stable)
NA	Unallocated	NA	-	-	1.85	[ICRA]BBB (Stable)
NA	Sale bill discounting	NA	9.35%	NA	40.00	[ICRA]A3+
NA	Purchase bill discounting	NA			7.00	[ICRA]A3+
NA	Short-term fund based	NA	-	-	8.00	[ICRA]A3+
NA	EPC/PCFC/FBP/FBD/ERBD (sublimit)	NA	-	-	(12.00)	[ICRA]A3+
NA	Letter of credit (sublimit)	NA	-	-	(20.00)	[ICRA]A3+
NA	Bank guarantee (sublimit)	NA	-	-	(5.00)	[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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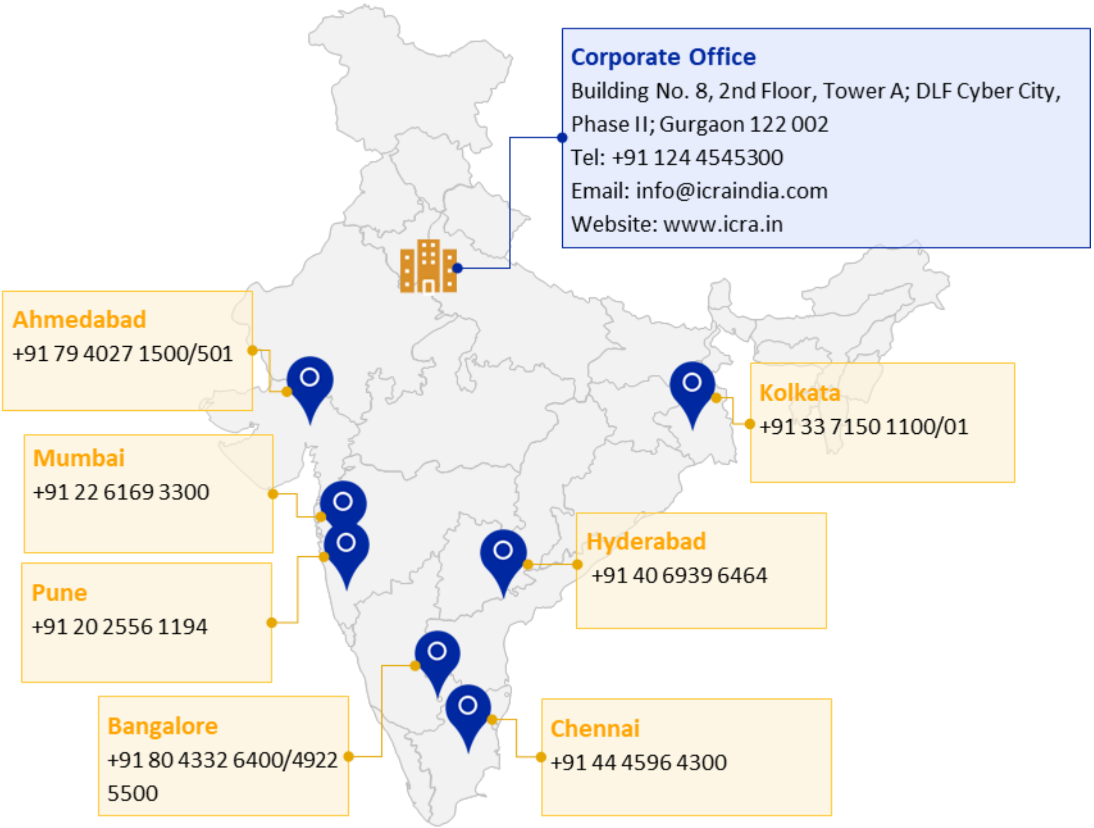

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