

## ABT Industries Limited

January 31, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Non-Convertible debt	10.0	10.0	[ICRA]BB+ (stable) / reaffirmed
Long term: Term loans	24.00	24.67	[ICRA]BB+ (stable) / outstanding
Long term: Fund based limits	48.00	45.00	[ICRA]BB+ (stable) / outstanding
Long term: Non-fund based limits	0.65	0.65	[ICRA]BB+ (stable) / outstanding
Long term: Unallocated	8.52	10.85	[ICRA]BB+ (stable) / outstanding
Short term: Non-fund based limits	0.75	0.75	[ICRA]A4+ / outstanding
<b>Total</b>	<b>91.92</b>	<b>91.92</b>	

\*Instrument details in Annexure -1

### Rationale

For arriving at the ratings ICRA has taken consolidated view of ABT Industries Limited (AIL) and its subsidiary – Sakthi Auto Motors Limited (SAML), henceforth referred to as “the Group”.

The reaffirmation of ratings favourably factors in the ratings draw comfort from the Group’s established market presence in auto dealership business being an authorised dealer of Tata Motors Limited (TML) and the company’s long track record in Dairy division. The rating positively considers expected improvement in operation profile of dairy segment, going forward, with additional focus on value added products. The ratings positively factor in the improvement in the AIL’s capital structure in FY2018 on account of infusion of compulsorily convertible debentures (CCD) by Tata Motors Finance Solutions Limited (TMFSL).

The ratings, however, remain constrained by the continued low profitability in the dealership segment in the recent past with the Group’s operating margins from the auto mobile dealership segment likely to remain low due to trading nature of operations. AIL’s debt levels continue to remain high due to increase in long-term investments and working capital requirements. Hence, with high debt level and elevated debt repayment from FY2020, the debt protection metrics is expected to remain stretched in the near term. The Group’s operating income and profitability also remain susceptible to high competitive intensity and cyclical in the commercial and passenger vehicle segment.

### Outlook: Stable

The Stable outlook reflects ICRA’s expectations that the Group will continue to benefit from its established track record in the commercial/passenger vehicle dealership and dairy segment. The outlook may be revised to Positive if KML is able to improve its profitability through the increase in the scale in Auto division and the introduction of value-added products in the Dairy division resulting in improvement in debt protection metrics. The outlook may be revised to Negative if any lower than expected operating income or profitability on account of any demand downturn results in lower than expected cash accrual, resulting in weakening of the liquidity profile.

## Key rating drivers

### Credit strengths

- **Established dealership presence in Tamil Nadu** – The Group has a long-standing presence in the domestic automobile dealership industry being TML's exclusive dealer in the region it operates within Tamil Nadu. While the performance of dealership business had been weak in the last five years, which coupled with high fixed costs resulted in steady losses for automobile division of the Group, the operations has turned around in H1 FY2019 due to elevated demand.
- **Diversified Business Profile** – With presence in the dairy segment and in both commercial and passenger dealership, the Group has relatively diverse revenue streams. Hence, any adverse scenario in one business segment will be likely mitigated to an extent by revenue stream from other segments.
- **Stable accruals from diary division support bottom-line at standalone level** - The Group's bottom-line is continued to be supported by stable accruals from diary division. Going forward as well, likely improvement in share of value-added products is expected to result in improvement in division's operating margins.

### Credit challenges

- **Intense competition and cyclicity in the automobile segment** – The Group's automobile division faces revenue concentration as the revenues are solely depended on single principal –TML. However, the market leadership position of TML in CV industry mitigates risk to an extent. The Group also faces competition from dealers of other original equipment manufacturers (OEMs) resulting in increased pressure to pass on price discounts to customers, resulting in thin gross margins. Moreover, the Group's profitability is vulnerable to underlying cyclicity in CV and PV industry.
- **Weak profitability** – Sustained losses in dealership segment on the back of low revenues and high fixed overhead showrooms affected the Group's bottom-line position in the recent past, apart from the impact of low profitability from the subsidiary entity - SAML. AIL's ability to sustain its high scale as witnessed in H1 FY2019, especially in dealership division, remain critical for improving the financial profile of the Group.
- **Stretched debt protection indicators and liquidity position** – The Group's low profitability coupled with higher debt dependence has kept the debt indicators stretched with interest cover of 1.4 times and DSCR of 1.1 times in FY2018. With increasing working capital requirements, increase in long-term assets, and high debt repayment from FY2020, the company's liquidity position and debt protection metrics are expected to remain stretched in the near-term. Nonetheless, expected increase in working capital borrowing limits and capital subsidy to be received from the Government is expected to mitigate the risks to an extent.

### Liquidity Position:

The Group's liquidity profile remains moderate as reflected in the high working capital utilization in the past twelve months. Though capex outlay is minimal in the near-term, high debt level and increase in principal repayment is expected to keep the liquidity position at moderate.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation / Standalone	Consolidation – ICRA has taken the consolidated the financial of the AIL and its subsidiary – Sakthi Auto Motors Limited, given the financial interlinkages between the two companies.

## About the company

AIL was incorporated in 1950 as “The Gounder & Co Private Ltd” and was initially into tea plantations till 1990, subsequently it obtained dealership for commercial vehicles from TML at Madurai and also took up manufacturing facilities of fruit based beverages at Chennai (later hived off in 2002). Later, AIL took over two other commercial vehicles dealerships of TML at Coimbatore and Calicut from the partnership firms of the promoters. AIL had ventured into dairy business in 1993-94 and in 2009-10, the business was expanded, and a new skimmed milk powder plant was commissioned. AIL’s subsidiary, Sakthi Auto Motors Limited (SAML), was incorporated in 2008, where it is into dealership of Tata Motors Limited’s passenger vehicles in Madurai, Sivaganga, Virudhunagar and Ramanathapuram districts.

## Key financial indicators (Audited) - Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	494.9	486.4
PAT (Rs. crore)	1.3	1.9
OPBDIT/ OI (%)	25.4	21.8
RoCE (%)	14.8%	10.9%
Total Debt/ TNW (times)	3.5	2.7
Total Debt/ OPBDIT (times)	5.1	7.1
Interest coverage (times)	1.2	1.2

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** None

### Rating history for last three years:

			Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating in FY2019 January 2019	Date & Rating in FY2019 December 2018	Date & Rating in FY2018 Oct 17	Date & Rating in FY2017 Jan 17	Date & Rating in FY2016 Jul 15	
1	NCD	10.0	7.5	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-	
2	Term loans	24.67	15.9	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
3	Cash credit	45.00	37.8	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
4	Bank Guarantee	0.65	0.65	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
5	Proposed	10.85	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
6	Letter of Credit	0.75	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE475Y07013	NCD	FY2018	11%	FY2024	10.0	[ICRA]BB+(Stable)
NA	Term loan 1	FY2016	-	FY2024	20.0	[ICRA]BB+(Stable)
NA	Term loan 2	FY2016	-	FY2028	4.67	[ICRA]BB+(Stable)
NA	Cash credit	-	-	-	45.00	[ICRA]BB+(Stable)
NA	Bank Guarantee	-	-	-	0.65	[ICRA]BB+(Stable)
NA	Proposed	-	-	-	10.85	[ICRA]BB+(Stable)
NA	Letter of credit	-	-	-	0.75	[ICRA]A4+

Source: All

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