May 15, 2020

ABI-Showatech (India) Private Limited: Ratings downgraded; outlook revised to stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	50.00	50.00	[ICRA]A; downgraded from [ICRA]A+; outlook revised to 'Stable' from 'Negative'
Fund Based – Working Capital Facilities	55.00	55.00	[ICRA]A; downgraded from [ICRA]A+; outlook revised to 'Stable' from 'Negative'
Non-fund Based – Working Capital Facilities	20.00	20.00	[ICRA]A1; downgraded from [ICRA]A1+
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating revision follows the higher than expected slowdown in the automotive industry during FY2020, aggravated by the novel coronavirus (Covid-19) outbreak in Q4FY2020 and its impact on ABI-Showatech (India) Private Limited's (ABI/ the company) revenues and profitability metrics. The pandemic is expected to adversely impact automotive demand in India and globally over the next 12 months. To contain the rapid proliferation of the disease, the Government of India (GoI) initially imposed a 21-day lockdown, which was subsequently extended till May 3, 2020 and May 17, 2020. The large-scale lockdown has disrupted production of automobile original equipment manufacturers (OEMs) and its supply chain from March 2020 onwards. In ICRA's view, even after the lockdown restrictions are further eased, the demand environment will remain subdued, since automobile purchase falls under discretionary spending. Accordingly, ABI is likely to witness lower earnings in the near-term. The rating revision also considers the anticipated decline in demand for diesel engines and consequently diesel turbo chargers under the BSVI regime from April 2020, as several OEMs have announced phase out of sub 1.5 litre diesel engines.

Nevertheless, ICRA believes that ABI remains adequately positioned from a liquidity standpoint with sufficient buffer from undrawn credit facilities (buffer of ~Rs. 35-40 crore). Against the aforementioned liquidity, the company has limited debt repayments of ~Rs. 3.1 crore in Q1 FY2021 and Rs.9.4 crore during the balance 9M of FY2021, in addition to supporting its fixed expenses. Supported by adequate liquidity, ABI has not opted for moratorium on interest or debt repayments for the March–May 2020 period (under the Covid-19 – Regulatory Package announced by the Reserve Bank of India).

The ratings also factor in ABI's strong process capabilities in aluminum 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, compressor wheel to name a few, which it supplies to large turbocharger manufacturers namely Turbo Energy Private Limited (TEPL) (rated [ICRA]AA/Stable/[ICRA]A1+) and Borg Warner Turbo Systems Worldwide GmbH (BWA) (rated Moody's Baa1 (Ratings on watch)/ P-2). The ratings also factor in the continued trade support from its group companies TEPL and Brakes India Private Limited (Brakes India).

ABI's wholly owned subsidiary Ross Castings & Innovation, LLC (Ross castings) is engaged in similar line of business for customers in the USA market. High labour cost and fixed costs have led to the thin operating margins and negative net margins for Ross castings over the past three years. Consequently, the operating and net margin of the consolidated entity was marginally lower at 13.6% and 4.6% respectively for FY2019. ABI standalone accounts for 78% of revenues, 134% of net profits and 76% of debt. Ross castings is managed as a standalone entity with minimal intercompany transactions. However, ABI has given a corporate guarantee of $5.35 million for the borrowings of Ross castings during FY2020.

The ratings remain constrained by high customer concentration risk with top three customers contributing to ~80% of revenues (standalone) in FY2019 although the risk is partly mitigated by its long-standing relationships with these customers. Further, 51% of the company's revenues are derived from group companies – TEPL and Brakes India. The ratings also consider the increasing threat from evolving vehicle architecture (hybrids and electric vehicles).

Key rating drivers and their description

Credit strengths

Financial profile characterised by strong debt protection metrics – ABI's debt protection metrics have remained strong for the company over the years with a gearing of 0.2 times and total debt/ OPBITDA of 1.2 times as on March 31, 2019 (consolidated). Interest coverage and DSCR were also strong at 32.6 and 29.0 times respectively for FY2019.

Despite the dip in operating margins for the standalone entity from 16.0% in FY2019 to ~11.5% in FY2020 (provisional), the capitalisation and coverage metrics continue to remain comfortable with a gearing of 0.2 times and debt/OPBITDA of 1.5 times as on March 31, 2020. Interest coverage and DSCR is at 15.6 times and 5.9 times respectively for FY2020(provisional). Going forward, the company is expected to maintain comfortable debt protection metrics.

Strong technological and process capabilities – Incorporated in 1991, the company has developed strong technological and process capabilities over the years especially in investment casting, aluminium casting, billet milling, investment casting and machining for turbo charger components. This has enabled the company to establish a dominant presence as a tier II supplier in the domestic turbo charger market. Strong technological and process capabilities have aided the company in healthy contribution margins and to diversify its revenues base to non-automotive segments such as aerospace and medical verticals. The company is currently in the process of supplying prototypes for investment casting components for auxiliary engine programs of few global aircraft manufacturers.

Stable revenues aided by long standing relationship with reputed clientele and its association with Brakes India Group – ABI's revenues continue to be driven by sale of machined turbocharger components to Turbo Energy Private Limited (TEPL) and Borg Warner Turbo Systems Worldwide GmbH (BWA), leading manufacturers of turbochargers in the domestic and global markets, respectively. Apart from these companies, ABI also supplies machined brake components to TRW Automotive Inc, USA (TRW) and Brakes India Private Limited (Brakes India). Its longstanding presence and strong relationship with reputed clientele had aided in revenue growth over the years. The company derived ~51% of revenues (for FY2019) from group companies TEPL and Brakes India.

Credit challenges

Weak demand outlook for the automotive industry in the domestic and export markets due to poor macro environment and Covid-19 pandemic – ABI's performance is largely dependent on the cyclical automotive OE demand with majority of the revenues from the passenger vehicle and commercial vehicle segments. The slowdown in the automotive industry in both domestic and export markets had led to ~18% decline in revenues to ~Rs. 490 crores (for the standalone entity) during FY2020 (provisional).

The Covid-19 pandemic which unfurled into an automotive supply chain disruption–largely limited to China during January and February 2020, snowballed into a global demand shock owing to the deterioration in the economic environment. An unprecedented large-scale global lock-down of all non-essential services has led to disrupted production at OEMs and down the supply chain during March 2020 and Q1FY2021. Further, automotive demand, both for the commercial (commercial vehicles) and the consumer segments (passenger vehicles, two-wheelers), has contracted sharply on weakening liquidity and poor consumer sentiments. As a result, ABI is likely to witness pressure on its revenues with an estimated double-digit de-growth for FY2021.

Technological changes such as implementation of BSVI norms and transition to EV's could impact ABI's revenues in the near and long terms respectively – ABI derives more than two-thirds of the revenues from sale of turbo charger components to domestic and export markets. With the implementation of BS VI norms, the demand for diesel turbochargers is expected to decline in the domestic market. Further, penetration of gasoline turbochargers is currently limited in the domestic market, capping the growth prospects of the company in the near term. Further, ABI also faces significant threat from the development of alternative vehicle architectures like electric vehicles, which do not use turbochargers. To counter this, the company is venturing into two new verticals i.e., aerospace and medical vertical and is investing significant amount in these verticals. Investments in the aerospace vertical has long gestation period which could bring down the profitability of the company in the near term.

High customer concentration risk – The Company faces high customer concentration risk with its top three customers accounting for ~80% of the revenues in FY2019. However, established relationship with the customers (predominantly group companies) and strong operational linkages mitigates the risk to an extent.

Profits vulnerable to fluctuation in raw material prices – ABI's margins are susceptible to variations in commodity prices such as aluminium and steel. The company has restricted price pass on in case of steel which creates pressure on margins at times.

Liquidity position: Adequate

ABI's liquidity is adequate with healthy fund flow from operations over the years. The company's fund flow from operation is estimated to be in excess of Rs. 50 crore for FY2021. The company also has buffer from unused working capital limits of Rs. 38.3 crore and undrawn term loan of Rs. 20 crore. Going forward, ABI has repayment obligations of Rs. 12.5 crore each in FY2021, FY2022 and FY2023 and capex commitment of ~Rs. 50 crore for FY2021. The company's anticipated accruals along with unused fund-based facilities and cash balances is adequate for the capex requirements and repayment obligations over the medium term.

Rating sensitivities

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

Negative triggers – Negative pressure on ABI's rating could arise if the company witnesses sustained decline in top-line and operating profits leading to weakening of debt protection metrics and profitability. Specific metrics that could lead to a downgrade include total debt/OPBITDA >2.3 on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ABI-Showatech (India) Private Limited

About the company

ABI Showatech (India) Private Limited, is a tier II auto component manufacturer involved in the manufacture of precision automotive components catering to the requirements of the turbocharger industry, where it supplies turbocharger components to BWA (rated at Moody's Baa1 (Ratings under review)/ P-2); a leading player in the global turbo charger market) and TEPL (rated [ICRA]AA/Stable/A1+, market leader in the domestic turbo charger market).

While arriving at the ratings, ICRA has considered the consolidated financial profile of ABI which includes its 100% subsidiary Ross Casting and Innovation LLC and its associate Flometallic India Private Limited (FIPL). While Ross castings is into manufacturing of aluminium castings and turbo charger products, FIPL is involved in manufacturing castings of automobile parts critical for safety like brake callipers, steering knuckles and other components like turbine housing, bearing housing, bearing caps, etc.

Although the company had consolidated the financial statements in FY2017, the same has not been done from FY2018 as the company is no longer obliged to consolidate the financial statements under the Companies (Accounts) Amendments Rules, 2016, as the primary holding company, Reno Mercantile Private Limited, is an Indian company and prepares the consolidated financial statements.

Key financial indicators (audited)

	Standalone		Consolidated[1]	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	472.5	599.0	631.4	765.6
PAT (Rs. crore)	51.1	47.2	42.3	35.2
OPBDIT/OI (%)	21.3%	16.0%	17.1%	13.6%
RoCE (%)	16.3%	13.4%	13.9%	10.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.4	0.3	0.4
Total Debt/OPBDIT (times)	0.3	1.2	0.4	1.4
Interest Coverage (times)	40.3	32.6	36.2	26.2
DSCR	34.9	29.0	18.1	14.4

[1] Consolidation made by the analyst basis best available information

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount O/s	Rating	FY2020	FY2019	FY2018	
					15-May-2020	29-Nov-2019	07-Sep-2018	15-Sep-2017	18-Apr-2017
1	Fund Based – Term Loan	Long Term	50.0	42.7	[ICRA]A (Stable);	[ICRA]A+ (Negative)	-	-	[ICRA]A+ (Stable); withdrawn
2	Fund Based – Working Capital Facilities	Long Term	55.0	-	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund Based – Working Capital Facilities	Short Term	20.0	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Sep-2018	NA	Aug-2023	50.00	[ICRA]A(Stable)
NA	Cash Credit/ WCDL/ EPC/ Invoice Bill Discounting*	NA	NA	NA	55.00	[ICRA]A(Stable)
NA	Letter of Credit/ BG/ BC*	NA	NA	NA	20.00	[ICRA]A1

** If the Cash Credit facility of 55.00 crore is used as Working capital demand loan/ Export Packing Credit/ Invoice/Bill Discounting then short-term rating of [ICRA]A1+ is applicable; Bank Guarantee of Rs. 10.00 crore and Buyers Credit of Rs. 20.00 crore are sub-limit of Letter of Credit of Rs. 20.00 crore*
Source: ABI-Showatech (India) Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ross Casting and Innovation LLC	100.00%	Full Consolidation
Flometallic India Private Limited	38.00%	Equity Method

While arriving at the ratings, ICRA has considered the consolidated financial profile of ABI which includes its 100% subsidiary Ross Casting and Innovation LLC and its associate Flometallic India Private Limited (FIPL).

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About ICRA Limited:

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