November 04, 2020

Autocomp Corporation Panse Private Limited: Ratings reaffirmed with revised limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based / Term Loan	50.49	53.69	[ICRA]BBB(Stable); Reaffirmed
Long term – Fund Based / Cash Credit	76.00	76.00	[ICRA]BBB(Stable); Reaffirmed
Long Term – Unallocated	29.65	26.45	[ICRA]BBB(Stable); Reaffirmed
Short Term - Non-fund based	27.00	27.00	[ICRA]A3+; Reaffirmed
Total	**183.14**	**183.14**	

*: Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings continues to factor in the established track record of the promoters of Autocomp Corporation Panse Private Limited (ACPPL or the company) in the auto ancillary industry. ACPPL enjoys long-standing relationship with key Original Equipment Manufacturers (OEMs) coupled with a healthy share of business in most of the components supplied by the company. It caters to diversified auto segments including two-wheelers, light commercial vehicles (LCV), sport utility vehicles (SUV), tractors, etc. Such segmental diversification safeguards company's business to an extent against certain segment-specific slowdown risks. The ratings also factor in the adequate liquidity position and comfortable capital structure and working capital profile supported by vendor financing schemes for key customers. The company also draws logistical advantages with a diversified manufacturing footprint, catering to diversified locations pan India closer to OEMs.

The ratings, however, remain constrained by the revenue de-growth recorded by ACPPL in FY2020 following subdued demand from key OEMs during the fiscal. The revenue is expected to decline further in FY2021 as the automotive demand forecast for the fiscal remains bleak. The ratings also take in to account the high competitive intensity in the sheet metal industry that restricts pricing flexibility and exposure to the performance of the principal OEMs, with high customer concentration exposing ACPPL to any customer-specific slowdown risks. ICRA also expects the moderation in debt coverage indicators, with decline in sales and impending debt repayments in FY2021 following debt funded expansion over the last three fiscals. The company's business operations are vulnerable to the performance of the principal OEMs, with high customer concentration exposing ACPPL to any customer-specific slowdown risks.

ICRA also takes note of the recent operational disruptions caused by the covid-19 pandemic and its impact on company's overall performance in Q1FY2021. Although ACPPL has resumed its business operations, its ability to attain recovery in sales pace in the current fiscal remains critical for revenue profile of the company. While ICRA draws comfort from ACPPL's adequate liquidity position and moderate raw material stock levels which would ensure business continuity, ICRA will continue to closely monitor the developments regarding the outbreak and their impact on ACPPL's business profile.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters and the established track record of its operations.

Key rating drivers and their description

Credit strengths

Long and established track record of promoters in the auto ancillary industry – Having incorporated ACPPL in year 1983, the promoters of the company have a long-standing experience and established track record in the auto ancillary industry. Such established track record has helped ACPPL in developing deep-rooted relations with its key customers, and also in attracting new customers for the sheet metal components business.

Long standing relationship with key OEMs; healthy share of business in most of the components supplied - ACPPL caters to sheet metal component requirements of two-wheelers for Bajaj Auto Ltd. (BAL), LCVs for Tata Motors Ltd. (TML) and SUVs for Mahindra & Mahindra Ltd. (M&M) with product profile comprising chassis, body panels, frames, seating panels. The company exhibits high share of business in the components supplied to its key OEMs which ensures revenue visibility for ACPPL. ACPPL has exhibited a growth trend in its sales to Jaguar Land Rover (JLR) in last couple of fiscals. Incremental sales expected from JLR towards its existing as well as newly launched models are expected to drive growth in ACPPL's exports going forward.

Caters to diversified auto segments including two-wheelers, LCV, SUV and tractors - ACPPL is diversified across segments like two-wheelers, LCV, SUV and tractors in the auto industry and caters to various product requirements of the customers within these segments. The company's presence is diversified across these segments which protects company's business against any segment-specific slowdown risks. The company though depicts high client concentration, the risk is mitigated to an extent by healthy share of business with large players. ACPPL is also actively looking to further diversify its customer base, with addition of few new customers in its clientele during last two fiscals.

Comfortable capital structure; working capital profile supported by vendor financing and bill discounting schemes for key principals - Despite the regular debt-funded capex incurred, the capital structure of ACPPL has remained comfortable with a gearing of 0.83x in FY2020 (provisional) on account of healthy net worth position. The company also draws comfort from its liquidity profile with unencumbered cash position and undrawn limits of its working capital facilities. The working capital profile is further supported by vendor financing scheme for TML as well as bill discounting for BAL.

Diversified manufacturing footprint; catering to diversified locations pan India closer to OEMs - ACPPL currently operates from four (including owned and rented ones) manufacturing units located in Chakan near Pune (Maharasthra), Pantnagar (Uttarakhand), Oragadam in Chennai (Tamilnadu) and Dharwad (Karnataka). These plants cater to the requirements of respective OEMs situated nearby thus helping the company logistically in executing orders from these OEMs. Having a manufacturing base across four locations has helped ACPPL in establishing better market presence. The company has regularly incurred capex in its manufacturing facilities towards upgradation and capacity expansion.

Credit challenges

Revenue de-growth in FY2020, further de-growth anticipated in present fiscal as the automotive demand forecast remains bleak – ACPPL recorded ~16% YoY de-growth in its revenue in FY2020 following subdued demand from the OEMs during the fiscal. The revenue is expected to decline further in FY2021 as the automotive demand forecast remains bleak. The company's ability to attain recovery in its sales pace in present fiscal remains crucial from the credit rating perspective. Revenue base of ACPPL also stands exposed to cyclicality inherent in the auto industry.

Moderation in debt coverage indicators with recent debt funded expansion – ACPPL exhibits moderation in coverage indicators on account of increased debt level due to recently incurred debt-funded capital expenditure towards capacity expansion and upgradation. The company recorded an interest coverage of 2.67 times in FY2020 (3.49 times in FY2019) while DSCR was recorded at 1.20 times for FY2020 (1.32 times in FY2019). The company has moderately high debt repayments lined up in FY2021, however, the repayments will decline from FY2022 onwards with no significant debt-funded capital expenditure lined up over the near to medium term resulting in gradual decline in overall debt level going forward.

High competition in the sheet metal components business – The sheet metal component business is characterised by high competitive intensity in the industry that restricts ACPPL's pricing flexibility to an extent. However, ACPPL's profitability is supported by the complete engineering solutions which yield healthy margins and thus support the company's overall profitability. The company's established relations with its key customers also provide some cushion against the said risk of competitive intensity.

Business operations vulnerable to the performance of the principal OEM with high customer concentration – As ACPPL supplies various sheet metal components to its key customers such as TML, M&M, BAL, etc., its business performance is closely linked with the business performance of OEMs. The business operations of ACPPL are therefore vulnerable to the performance of the principal OEMs. Any considerable fall in the sales pace of these OEMs could result in subsequent decline in the revenue base of ACPPL. Furthermore, the company also remains exposed to high customer concentration with its top three customers contributing to ~55% revenue in FY2020. However, ACPPL's established relations with its key customers provide some comfort against the high customer concentration.

Liquidity Position: Adequate

ACPPL's liquidity position remains **adequate** on the back of cushion available in the form of undrawn working capital limits of ~Rs. 33.60 crore as on August 31, 2020 (average utilisation of ~65% in the past 15 months) and the cash and liquid equivalents of Rs. 11.48 crore as on March 31, 2020. Although the company has moderately high annual debt repayment of ~Rs. 15.51 crore over the near term, its cash flows are expected to remain comfortable in meeting the debt repayment obligations.

Rating sensitivities

Positive triggers: The rating could be upgraded if the entity shows sustained growth in its revenue coupled with improved margins on a sustained basis; and if the entity records an interest coverage above 3.5 times and RoCE above 13% on a sustained basis.

Negative triggers: The rating could be downgraded in case of considerable de-growth in the revenue base of the entity, or if deterioration in margins leads to adverse impact on key credit metrics (Interest coverage falling below 3.0 times and RoCE falling below 10% on a sustained basis). Moreover, any large debt funded capex or stretch in working capital cycle that weakens the liquidity profile may necessitate 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	The rating is based on standalone financial statements of ACPPL.

About the company:

ACPPL is based out of Pune and is engaged in manufacturing sheet metal components catering to OEMs such as BAL and TML for their two-wheeler and LCV segment, respectively. It also manufactures sheet metal components for the SUV and Tractor segment of M&M. It was established as a proprietorship company in 1983 and subsequently converted to a private limited company in 2006. ACPPL has manufacturing units in Pantnagar (Uttarakhand), Chakan (Maharashtra), Dharwad (Karnataka) and Oragadam (Tamilnadu).

In FY2020 (provisional), ACPPL reported a net profit of Rs. 8.57 crore on an operating income of Rs. 460.52 crore, over a net profit of Rs. 10.28 crore on an operating income of Rs. 549.99 crore in the previous year.

Key financial indicators (Audited)

	FY2018 Audited	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. crore)	438.80	549.99	460.52
PAT (Rs. crore)	12.57	10.28	8.57
OPBDIT/ OI (%)	7.70%	5.60%	6.19%
PAT/OI (%)	2.86%	1.87%	1.86%
Total Outside Liability/ Tangible Net Worth (times)	1.70	1.94	1.66
Total Debt/ OPBDIT (times)	1.94	2.96	3.29
Interest coverage (times)	4.99	3.49	2.67

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore) as on March 2020	Date & Rating 4-Nov-2020	7-Jul-2020	Chronology of Rating History for the past 3 years Date & Rating in FY2019 26-Feb-2019	Date & Rating in FY2018 15-Mar-2018	Date & Rating in FY2017 10-Jan-2017
1	Fund based-Term loan	Long Term	53.69	50.49	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Fund based- Working Capital Facilities	Long term	76.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Fund based-Unallocated	Long Term	26.45	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
4	Non-fund based	Short Term	27.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
5	Fund based – Bill Discounting / PO Funding	Short Term	-	-	-	-	-	-	[ICRA]A3

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	76.00	[ICRA]BBB(Stable)
NA	Term Loan	Dec-2016	10.50%	Dec-2023	53.69	[ICRA]BBB(Stable)
NA	Non Fund Based Facilities	NA	NA	NA	27.00	[ICRA]A3+
NA	Long Term - Unallocated Amount	NA	NA	NA	26.45	[ICRA]BBB(Stable)

Source: Autocomp Corporation Panse Private Limited

Annexure-2: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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