November 27, 2020

ABI-Showatech (India) Private Limited: Rating reaffirmed

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(Stable); Reaffirmed
Fund Based – Working Capital Facilities	55.00	55.00	[ICRA]A(Stable); Reaffirmed
Non-fund based – Working Capital Facilities	20.00	20.00	[ICRA]A1; Reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings derives comfort from the company's strong parentage 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 it supplies to large turbocharger manufacturers, such as Turbo Energy Private Limited (TEPL), and Borg Warner Turbo Systems Worldwide GmbH (BWA; rated Moody's Baa1 (Negative)/ P-2). The ratings also factor in the continued trade support from its Group companies—TEPL and Brakes India Private Limited (Brakes India).

In a bid to reduce dependence on the turbocharger segment, the company has been investing in investment casting capabilities to cater to the aerospace industry and this has helped generate orders for aero parts, to be delivered from FY2022. This has provided improved revenue visibility for the company. Further, over the medium term, increasing penetration of gasoline turbochargers is likely to have a positive impact on company's revenues by partly mitigating the effects of decline in sale of diesel turbochargers post the implementation of BS-VI norms.

The ratings consider the strong standalone capital structure and debt protection metrics of the company with a gearing of 0.2x as on March 31, 2020, although there has been a moderation in TD/OPBDITA to 1.6x in FY2020 from 1.2x in FY2019 because of a fall in profits. However, the company's wholly-owned subsidiary Ross Castings & Innovation, LLC (Ross), which is engaged in similar line of business for customers in the US market, has witnessed significant weakening in performance over the past two years. In FY2020, in particular, Ross incurred losses of Rs. 19.8 crore owing to high labour costs. In FY2020, ABI issued a corporate guarantee of Rs. 37.8 crore for term loan availed by Ross. ABI is also expected to takeover Ross' wheel casting segment in FY2022. Further, incremental support to Ross and a potential write-down of the investment in the same is expected in FY2021, although the management is working on restructuring the operations at Ross. Higher-than-expected losses or support requirement from ABI is a rating monitorable.

Given the exclusive dependence on the cyclical automotive industry and the diesel segment in particular, the company reported an 18.2% decline in revenues in FY2020. While demand was impacted by the pandemic in February and March 2020; the transition to BS-VI norms with effect from April 1, 2020 also impacted demand prospects. The increase in cost of diesel vehicles post this transition led to OEMs like Maruti Suzuki India Limited discontinuing diesel platforms for lower capacity engines. The volumes declined further in H1 FY2021 due to the impact of the pandemic-induced lockdown of manufacturing facilities from March–May 2020 with operating income reducing by ~32% YoY to Rs. 167.4 crore in H1 FY2021 from Rs. 247.3 crore in H1 FY2020.

Key rating drivers and their description

Credit strengths

Sales to established players in export market and to Group companies in domestic market resulting in recurring revenues – ABI's revenues continue to be driven by sales 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 supplies machined brake components to TRW Automotive Inc, USA (TRW) and Brakes India Private Limited (Brakes India). Its long presence and strong relationship with a reputed clientele had aided revenue growth over the years. The company derived ~43% of revenues (for FY2020) from Group companies—TEPL and Brakes India.

Financial profile characterised by strong standalone debt protection metrics – The company's standalone debt metrics remained strong with net gearing of 0.2 times and total debt/OPBDITA of 1.6 times as on March 31, 2020. Interest coverage and DSCR also remained comfortable at 14.2x and 5.3x, respectively as of FY2020. However, with the decline in scale, operating margins contracted to 6.0% in H1 FY2021 and 11.8% in FY2020 from 16.0% in FY2019. The company's wholly-owned subsidiary's performance has, however, been a severe drag on performance in FY2020. ICRA will continue to monitor the support from ABI for the same.

Strong parentage and process capabilities of ABI – The company is part of the larger TVS Group. It has developed strong technological and process capabilities over the years, especially in investment casting, aluminium casting, billet milling 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.

Credit challenges

Muted automotive demand outlook in domestic and global market for FY2021 – ABI's performance is largely dependent on the cyclical automotive OE demand. The current slowdown in the automotive industry in both domestic and export markets had led to a 32.3% YoY decline in revenues to Rs. 167.4 crore (for the standalone entity) during H1 FY2021. Performance of its wholly-owned subsidiary Ross and associate Flometallic India Private Limited (FIPL) has also been impacted.

Weak financial performance of Ross– ABI's 100% subsidiary Ross has reported weak performance over the past three years. While the company was earlier operating largely as a standalone entity with the US operations being managed there, in FY2020, ABI has issued a corporate guarantee of Rs. 37.8 crore for term loan availed by Ross. The subsidiary reported net losses of Rs. 8.5 crore in FY2019 and Rs. 19.8 crore in FY2020, primarily on account of high manpower costs. The management also expects incremental support to Ross and a potential write-down of the investment in it during FY2021, although the management is working on restructuring the operations at Ross.

Technological changes such as implementation of BS-VI norms and transition to EVs impacting revenue – ABI derives more than two-thirds of its revenues from sales of turbo charger components to the domestic and export markets. With the implementation of BS-VI norms, the demand for diesel turbochargers has declined in the domestic market. Further, ABI faces threat from the development of alternative vehicle architectures like electric vehicles, which do not use turbochargers. The number of electric cars on road has been exponentially increasing globally from ~0.4 million in 2013 to ~7.2 million in 2019.

Long gestation period for investments in aerospace sector – Significant capex investments in the aerospace vertical, which has long gestation period, could bring down the profitability of the company in the near term. Although ABI has started generating orders, which will be effectuated in FY2022, take off in revenues is only expected from FY2024 or beyond.

High customer-concentration risk – The company faces high customer-concentration risk with its top three customers accounting for ~77% of the revenues in FY2020. However, established relationship with the customers (predominantly Group companies) and strong operational linkages mitigates the risk to an extent.

Liquidity position: Adequate

ABI's liquidity is **adequate** with healthy fund flow from operations over the years. The company's standalone fund flow from operation stood at Rs. 48.7 crore for FY2020, which is expected to moderate in FY2021, given the demand conditions. The company has debt repayments of Rs.14.9 crore and Rs.19.8 crore in FY2021 and FY2022. It has capex plans of ~Rs. 70–75 crore in FY2021 and ~Rs. 40 crore in FY2022. Further, the company will have to extend support to its 100% subsidiary Ross, in the event of continued weakness in the US operations.

ABI's average working capital utilisation (standalone) was low at 50.6% of sanctioned limits and 45.7% of drawing power for the 12-month period between October 2019 and September 2020. The company has drawn down on Rs. 20 crore of incremental term loans (as of November 20, 2020) and has unutilised fund-based working capital limits of Rs. 37.4 crore (average for the last 3 months) in FY2021. ICRA expects the company's anticipated accruals along with unutilised fund-based facilities and cash balances and incremental borrowings to be adequate for its capex requirements and repayment obligations.

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 deterioration in top line and operating profits, leading to weakening of debt protection metrics and profitability.

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	-
Consolidation/Standalone	The rating is based on ABI's limited consolidated financial profile (limited consolidation), for which ICRA has undertaken a limited consolidation of the financials of ABI, and its 100% subsidiary Ross, as enlisted in Annexure 2. The consolidated financials have not been prepared by the company, since these entities are consolidated by the parent company, namely Reno Mercantile Private Limited and accordingly, the key financial indicators on a consolidated level are not disclosed in the rationale.

About the Company

ABI-Showatech (India) Limited, subsequently converted to ABI-Showatech (India) Private Limited (ABI) is a tier-II manufacturer engaged 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*., (rated by Moody's Baa1 (Negative)/P-2 in rationale dated September 2, 2020) 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. The aluminium foundries of the company have a capacity of casting 6,000 tonnes per year, whereas the stainless-steel foundry has the capacity to produce 350,000 units per year.

Key financial indicators (Standalone, audited)

	FY2019	FY2020
Operating Income (Rs. crore)	599.0	489.9
PAT (Rs. crore)	47.2	4.7
OPBDIT/OI (%)	16.0%	11.8%
ROCE (%)	13.4%	1.6%
PAT/OI (%)	7.9%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3
Total Debt/OPBDIT (times)	1.2	1.6
Interest Coverage (times)	32.6	14.2
DSCR	29.0	5.3

Source: Company

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 (As on Sep 2020)	Rating 20-Nov-2020	FY2021 May 15, 2020	FY2020 Nov 29, 2019	FY2019 Sep 07, 2018	FY2018 Sep 15, 2017
1	Fund Based – Term Loan	Long Term	50.0	36.5	[ICRA]A(Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	-	
2	Fund Based – Working Capital Facilities	Long Term	55.0	42.5	[ICRA]A(Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ross Casting and Innovation LLC	100.00%	Limited Consolidation

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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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