June 27, 2022

Aditya Auto Products & Engineering (I) Private Limited: Ratings reaffirmed, and outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	15.40	24.00	[ICRA]BBB+ (Stable); Reaffirmed and outlook revised from Negative
Long-term – Fund-based/ CC	42.00	81.35	
Short-term – Fund-based	49.35	20.00	[ICRA]A2; Reaffirmed
Short-term-Non-fund Based	11.25	16.25	
Total	**118.00**	**141.60**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the rating outlook on the long-term rating of Aditya Auto Products & Engineering (I) Private Limited (Aditya Auto/ the company) considers the improvement of the company's scale of operations (57% YoY revenue growth) and profitability levels (Rs. 31 crore) in FY2022 (to the pre-pandemic levels) and expectation that the same is likely to remain healthy going forward as well. Further, equity infusion of Rs. 70 crore (Rs. 20 crore in October 2021 and Rs. 50 crore in May 2022) from Baring Private Equity India AIF (Baring Equity) has supported the company's liquidity position (with reduction in working capital debt utilisation). The ratings also continue to consider the vast experience of the promoters in the automotive industry and the strong operational profile backed by its established relationships with various original equipment manufacturers (OEMs) and Tier-1 players. With a favourable order book, new products for existing customers for better margins, customer additions, and addition of switched reluctance motors (SRM) in its product portfolio (for automotive and non-automotive applications), strong revenue growth and improvement in profitability margins are expected over the near to medium term.

The ratings, however, remain constrained by the company's moderate debt metrics (though improved compared to FY2020 levels) and working capital intensity. The ratings also consider the high customer concentration risk of the company (with its top three customers contributing 47.5% of its revenues in FY2022); however, its established relationships with large OEMs support its revenue visibility to a certain extent. Further, the ratings are constrained by the vulnerability of its earnings to competition from larger players and the inherent cyclicity of demand in the automotive industry.

ICRA also notes that Aditya Auto is entering into a joint venture (JV) with a German entity, Edscha Holding GmbH (Edscha). The company's door latch and striker business will be transferred to the JV for a consideration of ~Rs. 20 crore, which would be received by the company in H1 FY2023. The performances of the JV and additional investments, if any, remains one of the key rating monitorables.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its strong business profile supported by the extensive experience of its promoters and established relationships with major automotive players.

Key rating drivers and their description

Credit strengths

Strong operational profile and extensive promoter experience – The company enjoys an established relationship with its client base of major global and domestic OEMs and Tier-I players like Mahindra & Mahindra Limited (M&M), Lear Corporation, and Maruti Suzuki India Limited, among others. It is also supplying to Volkswagen and Renault Nissan Automotive from FY2021. Under the window regulator segment, the company supplies to majority of the OEMs and also enjoys preferred vendor/ sole supplier status with some of its customers like M&M and Volkswagen. Further, with the launch of SRM and increase in capacity of window lift motors, the motor segment is likely to witness substantial improvement; however, the receipt and execution of orders and the corresponding margin improvement remains one of the key monitorables. Also, ICRA believes Aditya Auto will continue to benefit from its promoter support, leading to better diversification in terms of product profile and geographic diversification.

Equity infusion supports cash flows – Baring Equity has invested Rs. 70 crore in the company, for an equity stake of 18.3%. The equity was utilised largely for reduction in working capital utilisation (~Rs. 40 crore) and the balance for capex / investment requirements. Further, additional equity infusion is expected into the company for the SRM segment to the extent of ~Rs. 25 crore, which will be utilised for capex requirements.

Credit challenges

Moderate financial profile – The company's financial profile is characterised by moderate debt metrics and working capital intensity. Post the impact of Covid-19-related disruptions in FY2021, Aditya Auto has shown improvement in its scale of operations and profitability levels on the back of demand rebound and addition of new customers and products. However, the debt metrics remained moderate, with Net debt/OPBDITA of 4.4x as on March 31, 2022 (over 10.6x as on March 31, 2021) and interest coverage of 2.3x during FY2022 (over 1.1x during FY2021). The profit margins are likely to expand over the near to medium term, with the addition of margin-accretive products (like SRM), and enhanced share of export revenues. While the debt levels have reduced with equity infusion, improvement in the debt metrics is expected with better profitability levels; however, the same remains a key monitorable.

High customer concentration risk – With its top three customers contributing 47.5% to its revenues in FY2022 and 50.2% in FY2021, the company's customer concentration risk remains high. However, Aditya Auto enjoys a strong relationship with its clientele, providing stability to its order flow. With new products added to its portfolio, the company is expected to increase penetration in the existing customer base and add new customers, thereby moderating its customer concentration risk over the near to medium term.

Exposure to cyclicality inherent in domestic auto sector – With the domestic market contributing 85.8% to its revenues in FY2022, the company is primarily a domestic player. Further, since its revenues are derived entirely from the automotive segment, Aditya Auto's revenues and earnings are vulnerable to the Indian auto industry cycles, as seen in the past. The export revenues are expected to improve over the near to medium term with new customer additions and products.

Liquidity position: Adequate

The company's liquidity position is **adequate,** characterised by the improved retained cash flows in FY2022 and undrawn working capital facility of ~Rs. 60 crore (including the available bill discounting limits) as on May 31, 2022. The company raised equity of Rs. 70 crore during FY2022-FY2023, which resulted in the improvement in its liquidity position. The company has debt repayments of Rs. 8.2 crore for FY2023 and Rs. 8.3 crore for FY2024, which is expected to be adequately serviced through internal accruals. In terms of capex, the company is expected to spend ~Rs. 30 crore in FY2023 for capacity expansions (including machinery purchases), SRM project-related investment and maintenance capex. While the SRM project is expected to be funded through equity-to-be-raised, the balance capex is expected to be met by internal accruals.

Rating sensitivities

Positive factors – The ratings would be upgraded if the company demonstrates sustained improvement in its scale of operations, operating and net margins, working capital cycle and debt metrics.

Negative factors – The ratings could be downgraded in case of pressure on the credit metrics arising from lower profit margins and a longer working capital cycle impacting the liquidity profile. Any large debt-funded capital expenditure weakening the credit metrics will also trigger 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	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statement of the rated entity.

About the company

Aditya Auto manufactures and sells door and access systems, wiring harness assemblies and connectors primarily for automotive applications. The company was set up in 1996 by the promoter, Mr. C Jayaraman, and commenced operations in 2000 for the export of wiring harness assemblies to OEMs in Europe. It subsequently diversified into the manufacturing of door and access systems (automatic/manual window regulators and door latches) through the acquisition of the related business of Arvin Meritor in 2001. Aditya Auto has also actively focused on backward integration for manufacturing input components for door and access systems and has a separate components division for supplying input materials. The components division includes—(i) injection moulding, cold forging, and fine blanking processes at its Trichy plant, which was commissioned in 2008; (ii) manufacturing of small starter motors at its Doddaballapur plant, which was commissioned in 2010; and (iii) a stamping facility at the Doddaballapur plant, which was commissioned in 2010. From FY2012, Aditya Auto backward integrated further into manufacturing tools and dyes with the acquisition of the facilities of Nettur Technical Training Foundation in Bengaluru, an erstwhile vendor of the company.

The promoter family had an equity stake of 74.8% equity stake in the company and Baring Equity a stake of 18.3%, as on May 31, 2022.

Key financial indicators (audited)

Aditya Auto consolidated	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	347.7	307.2	483.2
PAT (Rs. crore)	2.4	-4.1	4.9
OPBDITA/OI (%)	8.0%	4.9%	6.5%
PAT/OI (%)	0.7%	-1.3%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	3.0	2.3
Total Debt/OPBDITA (times)	5.0	10.7	4.5
Interest Coverage (times)	2.1	1.1	2.3

**Provisional; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations*

Source: Company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2022 (Rs. crore)	Date & Rating	Date & Rating In FY2022	Date & Rating In FY2021		Date & Rating in FY2020
					June 27, 2022	-	Mar 25, 2021	May 4, 2020	May 17, 2019
1	Term Loan	Long Term	24.00	22.8	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Fund based/CC	Long Term	81.35	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
3	Fund based	Short Term	20.00	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Non- fund based	Short Term	16.25	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund based/CC	Simple
Fund based limits	Simple
Non- fund based limits	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: 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	Long term-Term Loan	Dec 2018/ Jan 2021	NA	FY2024/FY2027	24.00	[ICRA]BBB+ (Stable)
NA	Long Term-Fund based/CC	NA	NA	NA	81.35	[ICRA]BBB+ (Stable)
NA	Short Term-Fund based	NA	NA	NA	20.00	[ICRA]A2
NA	Short Term-Non- fund based	NA	NA	NA	16.25	[ICRA]A2

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Synedyne Systems Private Limited	91.57%	Full Consolidation
Rehans Graphics Private Limited	99.97%	Full Consolidation

Source: company annual report FY2021

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Seetha Pillai
+91 80 4332 6411
seetha.pillai@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.