December 14, 2022

ABI-Showatech (India) Private Limited: Long-term rating upgraded; outlook revised to 'Stable'; Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loan	138.00	107.00	Rating upgraded to [ICRA]A+ from [ICRA]A; outlook revised to 'Stable' from 'Positive'
Fund Based - Cash Credit	55.00	55.00	Rating upgraded to [ICRA]A+ from [ICRA]A; outlook revised to 'Stable' from 'Positive'
Short Term – Non – Fund Based	20.00	20.00	[ICRA]A1 reaffirmed
Long-term/Short-term - Unallocated	-	31.00	Long-term rating upgraded to [ICRA]A+ from [ICRA]A; outlook revised to 'Stable'; from 'Positive'; Short-term rating reaffirmed at [ICRA]A1
Total	**213.00**	**213.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action considers the strong performance of ABI-Showatech (India) Private Limited (ABI) during FY2022 and H1 FY2023 and expectation that the company will sustain its growth momentum in the medium-term. ABI's standalone revenue improved by ~34% to Rs. 619.6 crore in FY2022 aided by over 25% growth in volumes and improved realizations on the back of elevated raw material costs. The company's performance during H1 FY2023 remained healthy with revenues of Rs. 371.3 crore (up 15% YoY). Operating margins have also improved to 15.7% in H1 FY2023 from ~13.3% in FY2022 aided by scale benefits and cost control mechanisms. Its gearing was 0.3x and DSCR of 3.3x as on September 30, 2022 (0.4x and 2x as on September 30, 2021). ABI has a wholly owned-subsidiary, Ross Casting LLC (Ross) which derives revenue from sale of compressor wheel and milled wheels. The compressor wheel segment which contributes to over 70% of Ross's revenues has been moved to ABI. Further, Ross has repaid its debt outstanding in FY2022 and is expected to sequentially wind down its milled wheel operations as well over the medium term by transfer of business to ABI.

The ratings also factor in ABI's healthy financial flexibility 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 are supplied to large turbocharger manufacturers, such as Turbo Energy Private Limited (TEPL), and Borg Warner Turbo Systems Worldwide GmbH (BW). The ratings factor in the continued trade support from its Group companies—TEPL and Brakes India Private Limited (BIPL). In a bid to reduce dependence on the turbocharger segment, ABI has made investments towards entry into the aerospace industry which will support business diversification over the long-term.

The ratings consider the vulnerability of ABI's earnings to any slowdown in automotive demand. It also faces customer concentration risk with its top two customers accounting for ~61% of the revenues in FY2022. However, the established relationship with the customers (predominantly Group companies) and strong operational linkages with such clients mitigate the risk to an extent. Further, ABI's products could face long-term threat from the development of alternative vehicle architectures like electric vehicles, which do not use turbochargers. Nevertheless, diversification into the aerospace sector shall mitigate this risk in the long term by reducing dependence on the auto sector.

Key rating drivers and their description

Credit strengths

Healthy financial profile – ABI's standalone revenue improved by 34% to Rs. 619.6 crore in FY2022 aided by 25% growth in volumes and improved realizations through effective pass on of raw material costs. H1 FY2023 performance continued to remain healthy with revenues at Rs. 371.3 crore. Operating margins have also improved to 15.7% in H1 FY2023 from 13.3% in FY2022 aided by scale benefits and cost control mechanisms. Its subsidiary, Ross has repaid its debt outstanding in FY2022 and transferred its compressor wheel business (comprising ~70% of revenues) to ABI sequentially over FY2022. Moreover, the milled wheel business remaining with Ross is also expected to be transferred to ABI over the medium term. ABI's gearing remains strong at 0.3 times with DSCR of 3.3 times as on September 30, 2022. However, with sizeable investments in aerospace segment, RoCE levels are currently low though they are expected to improve going forward as no major investments are expected in the near to medium term. On a consolidated basis, operating margins improved to 11.3% in FY2022 from 9.7% in FY2021 with further improvement expected in FY2023. Gearing remains strong at 0.3 times in FY2022.

Sales to established players in export market and to Group companies in domestic market resulting in recurring revenues – ABI supplies machined turbocharger components namely bearing housing, turbine housing, compressor housing, turbine wheel, and compressor wheel to TEPL and BW, leading manufacturers of turbochargers in the domestic and global markets, respectively. It also supplies machined brake components to ZF Group and BIPL. Its long presence and strong relationship with reputed clientele have aided revenue growth over the years.

Healthy financial flexibility and strong process capabilities of ABI – ABI is an associate concern of TEPL, which is held by the T S Santhanam family group. Given its established presence in automotive industry and being a critical supplier of key components for the turbocharger industry, ABI continues to enjoy strong financial flexibility with lenders for its capex and operational funding requirements at low interest rates. ABI has also developed strong technological and process capabilities over 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.

Entry into aerospace segment to support business diversity over long term – The company has invested Rs.75-80 crore in the aerospace sector in the recent years, which will help it insulate itself from potential long-term risks like increased adoption of EV vehicles by diversifying its revenue base away from the auto segment. With this investment, dependence on turbocharger demand is likely to reduce over long-term.

Credit challenges

Revenues and earnings vulnerable to any automotive demand slowdown - Given its large dependence on automotive segment, ABI's revenues and earnings are susceptible to the cyclicality in automotive demand from both domestic and export markets. In the past, revenues have been impacted by introduction of BS VI norms, pandemic, as well as semiconductor shortages. Going forward, its earnings shall remain exposed to any sharp slowdown in automotive demand apart from major volatility in raw material prices and forex rates.

High customer concentration – The company faces customer concentration risk with its top two customers accounting for ~61% of the revenues in FY2022. However, established relationship with the customers (predominantly Group companies) and strong operational linkages mitigates the risk.

Technological changes such as transition to EVs may impact revenue in the long term – ABI derives more than two-thirds of its revenues from sale of turbo charger components to the domestic and export markets. It faces a potential threat from the development of alternative vehicle architectures like electric vehicles, which do not use turbochargers. Diversification into the aerospace sector is, however, expected to mitigate this risk in the long term by reducing dependence on auto sector.

Liquidity position: Adequate

ABI is expected to generate retained cash flows (standalone) of Rs. 45-55 crore in FY2023 with repayment obligations of Rs. 33.7 crore and capex plans of Rs. 50-60 crore. Against this, it has cash balance of over Rs. 50 crore as on September 30, 2022 with buffer in working capital limits of 44.5 crore as on September 30, 2022.

Rating sensitivities

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

Negative factors – Negative pressure on ABI's ratings could arise if the company witnesses sustained deterioration in top line and operating profits, leading to weakening of debt protection metrics and profitability. Specific credit metrics which could lead to downgrade include TD/OPBITDA of more than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on consolidation of ABI's standalone business, its 100% subsidiary Ross and associate company, Flometallic India Private Limited as enlisted in Annexure 2.

About the company

ABI-Showatech (India) Limited, subsequently converted to ABI-Showatech (India) Private Limited (ABI) is a tier-II manufacturer involved 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*., 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. Ross Casting and Innovation LLC (Ross) is a 100% subsidiary of ABI Showatech (India) Private Limited located in Sidney, Ohio, USA. The company has been supplying aluminum castings and aluminum turbo charger wheels to the industrial and automotive segments respectively.

Key financial indicators (audited)

ABI Standalone	FY2021	FY2022
Operating income	462.5	619.6
PAT	7.1	8.8
OPBDIT/OI	9.8%	13.3%
PAT/OI	1.5%	1.4%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	3.8	2.0
Interest coverage (times)	13.2	18.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;

ABI – Consolidated	FY2021	FY2022
Operating income	583.9	749.7
PAT	20.8	11.9
OPBDIT/OI	9.7%	11.3%
PAT/OI	3.6%	1.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	3.5	2.0
Interest coverage (times)	11.2	14.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios are as per ICRA's calculations; consolidation done on best effort basis

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 September 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					December 14, 2022	October 19, 2021	27-Nov-2020	15-May-2020	29-Nov-2019
1	Fund Based – Term Loan	Long-term	107.0	102.9	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)
2	Fund Based working capital facility	Long-term	55.0	35.5	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)
3	Non-Fund Based Working Capital facility	Short Term	20.0	4.4	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
4	Unallocated	Long-term/ Short-term	31.0	-	[ICRA]A+(Stable)/[ICRA]A1	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund Based – Term Loan	Simple
Long Term Fund Based – Cash Credit	Simple
Short Term – Non-Fund Based	Very Simple
Long-term/Short-term Unallocated	Not Applicable

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: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Sep 2018	-	Apr 2026	107.00	[ICRA]A+(Stable)
NA	Cash Credit	-	-	-	55.00	[ICRA]A+(Stable)
NA	Short-Term Non-Fund Based	-	-	-	20.00	[ICRA]A1
NA	Long term/Short term unallocated	-	-	-	31.0	[ICRA]A+(Stable)/[ICRA]A1

Source: Company

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

Annexure II: 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	42.00%	Equity Method

*ABI-Showatech (Oman) LLC, a wholly owned subsidiary was not considered in the consolidation as it has been liquidated

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About ICRA Limited:

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