Autometers Alliance Limited

	Amount	Rating Action
	In Rs. Crore	Dec'15
Long-term fund-based bank facilities	30.0 (enhanced from 22 earlier)	[ICRA]BBB (Negative); rating downgraded & outlook revised to negative
Long-term non-fund based bank facilities	121.0	[ICRA]BBB (Negative); rating downgraded & outlook revised to negative
Short-term fund-based bank facilities	30.0 (enhanced from 22 earlier)	[ICRA]A3+; rating downgraded
Short-term non-fund based bank facilities	15.0 (enhanced from 10 earlier)	[ICRA]A3+; rating downgraded
Total	**196.0 (enhanced from 175 earlier)**	

ICRA has revised the long-term rating for the Rs. 151 crore[1] (enhanced from Rs. 143 crore earlier) fund-based and non-fund based bank facilities of Autometers Alliance Limited (AAL) to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]A- (pronounced ICRA A minus) earlier. Outlook on the long-term rating has been revised to 'negative' from 'stable' earlier. Further, ICRA has also revised the short-term rating for the Rs. 45 crore (enhanced from Rs. 32 crore earlier) fund-based and non-fund based bank facilities of the company to [ICRA]A3+ (pronounced ICRA A three plus) from [ICRA]A2+ (pronounced ICRA A two plus) earlier[†].

The ratings revision factors in a sharp deterioration in AAL's debt-coverage metrics and cash flows, as a result of a consistent decline in its operating profitability margins amid stagnant revenues and elongated receivable cycle, which as per ICRA's estimates is unlikely to improve in near term resulting in a revision in rating outlook to negative. ICRA notes that AAL's operating performance has weakened considerably due to increased competition resulting in lower order inflows from Indian Railways (IR) and at lower margins, thereby resulting in a drop in sales as well as profitability in its mature product categories. Although the escalators business from Delhi Metro Rail Corporation (DMRC) has helped the company in maintaining its revenue base, however lower margin in this business together with slower project movements for DMRC has been impacting profits, while also increasing working capital requirements. While AAL has recently secured orders from IR in new product categories (for supply of propulsion equipment), given the long product approval process of Research, Design and Standards Organisation (RDSO), the supplies and revenues will materialise only in the medium term. As is typical for any new product segment for the company, AAL continues to rely on technology partners for introduction of new products till the technology is absorbed.

Although AAL has a comfortable order-book position of ~Rs. 250 crore providing visibility of revenues for the next 12-18 months, the same is lower vis-à-vis last year (~Rs. 296 crore in November 2014). Thus the company's ability to continually secure orders, in order to maintain its scale of operations, will be a critical determinant of its profitability margins going forward. Further, the ratings continue to remain constrained on account of high client concentration risk with IR and DMRC expected to account for more than 90% of total sales over the next two years exposing AAL to risks like delayed payments, slower project movements of DMRC and low order generation especially from Indian Railways.

The ratings, however, continue to derive comfort from AAL's strong net-worth position, as reflected in a gearing of 0.39x and current ratio of 1.86x as on 31st March 2015, which provides some cushion to the company to absorb losses currently being experienced, particularly in its new product lines. Further, the company's established track record of securing orders from reputed customers like IR and DMRC and entry barriers due to lengthy product approval process by RDSO, provide comfort.

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

In ICRA's view, the company's ability to improve pace of order inflows, execution and profitability while reducing working capital cycle will be the key rating sensitivities. Further as per ICRA's estimates, given the high operating leverage of its business, AAL's inability to achieve improvement in above parameters will result in cash flow pressures and erosion of cushion currently available in its balance sheet.

Company Profile

A subsidiary of Autometers Limited, Autometers Alliance Limited (AAL) is engaged in manufacturing and selling engineered products such as tachograph, relays, vacuum circuit breakers, auxillary converters, inverters, converters, passenger information systems, connectors, tap changers, master-controllers, uninterrupted power supply (UPS) system and electric panels. Since FY13, the company also started trading in escalators. AAL's manufacturing units are located at Noida (Uttar Pradesh) and Nalagarh (Himachal Pradesh) and most of its products are supplied to various units of the Indian Railways (like Chittaranjan Locomotive Works and Integral Coach Factory) and Delhi Metro Rail Corporation (DMRC). Besides designing and manufacturing products, the company also provides installation & maintenance services to its clients.

Autometers Limited was established in 1959 to manufacture dashboard instruments and later in 1988 the company started manufacturing railway/traction equipment under a separate unit i.e. the Railway Product Division. Subsequently, in 1995 the Railway Product Division was converted into a wholly owned subsidiary of Autometers Limited in the name of Autometers Secheron Ltd. which was later renamed Autometers Alliance Limited (AAL) in 1999.

Recent Results

AAL reported an operating income (OI) of Rs. 170.9 crore and a net loss of Rs. 2.3 crore in FY15 as compared to an OI of Rs. 166.6 crore and a net profit of Rs. 5 crore in FY14. As per provisional estimates, the company reported an operating income of Rs. 85.17 crore in H1'FY16 and a net loss of Rs. 8.19 crore as compared to an operating income of Rs. 70.42 crore and a net loss of Rs. 12.11 crore in the corresponding previous.

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