March 23, 2017

Aditya Auto Products & Engineering (India) Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	16.89	[ICRA]BBB+ (Stable) / Reaffirmed
Long Term Fund Based Limits	26.50	[ICRA]BBB+ (Stable) / Reaffirmed
Long Term Unallocated Limits	0.51	[ICRA]BBB+ (Stable) / Reaffirmed
Short Term Fund Based Limits	49.85	[ICRA]A2 / Reaffirmed
Short Term Non-fund based Limits	14.25	[ICRA]A2 / Reaffirmed
Total	**108.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB+ (pronounced as ICRA triple B plus)[1] outstanding on the Rs.16.89 crore (revised from Rs.24.09 crore) term loan facilities and Rs.26.50 crore (revised from Rs.22.50 crore) fund based limits of Aditya Auto Products & Engineering (India) Private Limited (Aditya Auto / the company). ICRA has also reaffirmed long term rating of [ICRA]BBB+ (pronounced as ICRA triple B plus) to the Rs.0.51 crore of unallocated limits of Aditya Auto. ICRA has also reaffirmed the short term rating of [ICRA]A2 (pronounced as ICRA A two) outstanding on the Rs.49.85 crore[2] (revised from Rs.50.85 crore) fund based facilities and Rs.15.51 crore (revised from Rs.14.25 crore) non fund based bank facilities of Aditya Auto. The outlook on the long term rating is ‘Stable’.

Rationale

The assigned rating continues to take into account the rich experience of Aditya Auto’s promoters in the auto ancillaries industry, its established relationships with several established OEMs and tier-1 suppliers and a healthy product pipeline with an increasing focus on Research & Development (R&D) which is expected to support the company’s business prospects going forward. During FY2016, the company witnessed a moderate revenue growth of 5.7% while the operating margins declined from 8.6% in FY2016 from 8.9% in FY2015. However, the same revived to 9.1% during 9M FY2017 following the company’s actions on margin improvement and launch of some new products.

The ratings, however, continue to be constrained by significant customer concentration with the company deriving about 50% of its revenues from top three customers, high competitive intensity affecting pricing power and inherent cyclicality of the Indian automobile industry. While the company’s debt levels declined during FY2016, the same has increased again on account of the company drawing down on a corporate loan of Rs.20.0 crore during FY2017 to refinance its high cost debt, support its restructuring operations and ease its working capital position. Going forward, the company’s debt levels, capitalization and coverage indicators are expected to remain strained on account of capital expenditure plans towards capacity expansion and inorganic growth plans. While the company has recently diversified into non-auto motive business, scale of the same currently remains small. Going forward, the company’s ability to diversify its revenue base and improve its scale of operations while expanding its margins would remain critical to its credit profile.

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

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit Strengths

- Established customer profile with supplies to some of the leading automotive OEMs in India like Mahindra & Mahindra Limited (M&M), Maruti Suzuki India Limited (Maruti), Tata Motors Limited and Honda Cars India (Honda)
- Company's focus on backward integration and R&D to support margins and revenue growth going forward
- Presence in exports provides hedge against currency fluctuations for import of raw materials and components to a certain extent
- Strong R&D and design team coupled with healthy product pipeline likely to support in revenue and margin growth going forward

Credit Weakness

- Customer concentration continues to remain moderately high with top three customers accounting for ~50% of the revenues
- Financial profile characterized by moderate gearing and working capital intensity, modest coverage indicators and weak cash flow position; utilization of working capital limits was also high at about 94% over the last 12 months
- Significant capital outlay towards acquisition and capital expenditure over the next 2-3 years likely to strain debt profile and cash flows of the company
- Margins remain exposed to fluctuations in raw material prices, high competitive intensity in the industry and strong bargaining power of the OEMs
- Company remains exposed to the cyclicality of the automobile industry; revenues have remained largely flattish over the last 3-4 years

Description of key rating drivers highlighted above:

Aditya Auto is engaged in manufacturing of door and access systems (D&A) for the automobile industry (mainly passenger vehicles) with products comprising of manual and power window regulators, door latches and small capacity motors for power windows. The D&A division remains the largest division for the company accounting for 60% of the total revenues in FY2016. The company has strong technical capabilities in the D&A systems, with supplies to a number of domestic OEMs such as M&M, Maruti and Tata Motors Limited (TML) in addition to foreign OEMs such as Honda and Volkswagen. Apart from D&A systems, the company also supplies wiring harness assemblies, connectors and actuators to export customers including Robert Bosch, Kongsberg Automotive and International Automotive Components Group (IAC - UK), among others.

Domestic sales accounted for 96.6% of the company's revenues during FY2016 as against 82.4% of domestic sales during FY2014 witnessing a steady de-growth owing to a decline in its export contracts. Going forward, the company's export business is expected to be supported by higher business traction on back new customer acquisition further aided by the strong order pipeline from existing customers under the wiring harness division.

Aditya Auto's customers in the 4W segment include major OEMs and tier I suppliers—such as M&M, Honda, MSIL, and TML —to whom the company supplies directly. However, M&M remains its largest customer, accounting for ~30% of the total revenues in FY2016, followed by MSIL and Honda. Despite the steady reduction in its client concentration over the years, the same continues to remain on a higher side, with the top three customers accounting for ~50% of the company's total revenues during FY2016.

Nevertheless, going forward, with the addition of new customers and increasing diversification in the non-automotive segment, the company's customer concentration is expected to reduce.

The company faces stiff competition from other auto ancillaries in each of its business divisions—considering that most OEMs maintain multiple vendors for diversified sourcing risks and higher bargaining power. In particular, Aditya Auto faces competition from players such as IFB Automotive Private Limited and Shiroki Technico Industries Limited in the window regulator segment; and from Shivani Locks Private Limited, Jay Ushin Limited and Pha India (Hyundai) in the door latch segment. Besides domestic vendors, the company also competes with international tier I suppliers such as Brose Fahrzeugteile GmbH & Co. KG, Grupo Antolin, Inteva Products, and Aisin Automotive. Despite the high competitive intensity and significant bargaining power of the OEMs, the company is able to pass on the increase in raw material prices to the OEMs periodically. However, the company remains exposed to cyclicality of the Indian automotive industry.

Aditya Auto's gearing deteriorated from 1.1x as on March 31, 2016, to 1.4x as on September 30, 2016, primarily on account of drawdown of corporate of Rs.20 crore. The company's coverage indicators also remained weak at TD/OPBDITA of 5.2x as on September 30, 2016 and interest coverage at 1.2x during H1 FY2017. Going forward, the company's debt levels are expected to increase on account of capital expenditure plans towards consolidation of tier-1 automotive business and inorganic growth plans. Further, the company's short term liquidity also remains weak reflected by relatively high working capital utilizations primarily on account of one-time expenses towards restructuring of operations coupled with moderately high working capital intensity.

Analytical approach: To arrive at the ratings, ICRA has performed a detailed evaluation of the issuer's business and financial risks.

Links to applicable Criteria
http://www.icra.in/Files/Articles/Auto%20Component-June%202016.pdf

About the Company:
Aditya Auto is engaged in manufacture and sale of door and access systems for automobile OEMs (with manufacturing facilities at Doddaballapur – Bangalore; Chakan – Pune and Bawal – Haryana) and wiring harness assemblies for export business (with manufacturing facilities at Bommasandra – Bangalore). The company is also involved in contract manufacturing of stamped and plastic sub-assemblies of door and access systems, precision stamped, fine blanked and moulding parts and other components for tier-1 automobile players.

The company was established in 1996 by Mr. C Jayaraman and started its operations in 2000 with export of wiring harness assemblies to OEMs in Europe. Later the company diversified into manufacture of Door & Access Systems (automatic/manual window regulators and door latches) through acquisition of Arvin Meritor's operations in 2001. Subsequently, it also entered into technology transfer agreement with Dura Automotive Systems Inc. (Dura) in 2007 for manufacturing spare wheel (stepney) winches, parking brakes and gear shifters. However, with the expiry of the technology transfer agreement in 2010, Aditya Auto and Dura agreed to discontinue the collaboration from December 2010 onwards.

The company has also actively focussed 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 comprises of (i) injection moulding, cold forging, and fine blanking processes at its Trichy plant commissioned in 2008, (ii) manufacturing small motors (mainly for window regulators) at its Doddaballapur plant commissioned in 2010 and (iii) stamping facility in Doddaballapur plant commissioned in 2010. During FY2012, the company further backward integrated into manufacturing of tools and dies with acquisition of the facilities of NTTF Industries Private Limited (NTTF) – Bangalore (Karnataka), an erstwhile vendor for the company. Through the acquisition the company has also added new products like brake reservoir body, dashboard parts, etc. and new customers.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 4 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2015
				March 2017	December 2015	September 2014	March 2014
1	Term Loans	Long Term	16.89	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Fund based facilities	Long Term	26.50	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
3	Unallocated Limits	Long Term	0.51	[ICRA]BBB+ (Stable)	-	-	-
4	Fund based facilities	Short Term	49.85	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Non fund based facilities	Short Term	14.25	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loans	2016	12.2%	FY2022	16.89	[ICRA]BBB+ (Stable)
Long term Fund based facilities	2016	-	-	26.50	[ICRA]BBB+ (Stable)
Long Term Unallocated Limits	-	-	-	0.51	[ICRA]BBB+ (Stable)
Short term Fund based facilities	2016	-	-	49.85	[ICRA]A2
Short term Non fund based facilities	2016	-	-	14.25	[ICRA]A2

Source: Aditya Auto Products & Engineering (India) Private Limited

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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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