

Autometers Alliance Limited

March 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	30.00	40.00	[ICRA]BBB(Negative); Reaffirmed
Long-term non-fund-based bank facilities	121.00	135.00	[ICRA]BBB(Negative); Reaffirmed
Short-term fund-based bank facilities	30.00	40.00	[ICRA]A3+; Reaffirmed
Short-term non-fund-based bank facilities	15.00	15.00	[ICRA]A3+; Reaffirmed
Total	196.00	230.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating for the Rs. 175.00-crore¹ (enhanced from Rs 151.00-crore earlier) bank facilities of Autometers Alliance Limited (AAL) at [ICRA]BBB (pronounced ICRA triple B)². ICRA has also re-affirmed the short-term rating for the Rs. 55-crore (enhanced from Rs 45.00 crore earlier) bank facilities of AAL at [ICRA]A3+ (pronounced ICRA A three plus). The outlook on the long-term rating continues to be 'Negative'.

Rationale

The ratings continue to derive comfort from AAL's healthy balance-sheet funding facilitated by a strong net-worth base (as reflected in a total debt/tangible net worth of ~0.50 times and current ratio of 1.90 times in FY2018E) and its established operational track record with steady technological tie-ups and demonstrated ability to secure business from reputed clients like Indian Railways (IR), Bharat Heavy Electricals Limited (BHEL), BEML Limited, Delhi Metro Rail Corporation (DMRC) and other metro projects. Further, AAL's wide product portfolio with demonstrated stability in revenue generation from mature product categories and reasonable order-book position offering revenue visibility for the next 12-15 months, provide comfort. The ratings are, however, constrained by the operational challenges emanating from the intense competition resulting in profitability pressures, inherent seasonality with revenues skewed in the last quarter of a financial year and cash losses typically reported during the first nine months of a financial year and high working capital requirements of the business.

In light of the increased competition in mature product categories, venture into lower-margin new product categories and increased proportion of project business, AAL had witnessed stagnancy in turnover, consistently declining operating margins and increasing working capital intensity between FY2013 and FY2016. Lower profitability together with increased working capital borrowings had, in turn, affected the company's debt coverage indicators adversely. Although a reversal in trend with marginal yet consistent improvement in its key performance metrics has been witnessed from FY2017 onwards, AAL's financial profile continues to be moderate. This is reflected in its modest profitability indicators (operating margin of ~5.7% and return on capital employed of ~6% in FY2018E), high working capital intensity (net working capital/ operating income of ~60%) and moderate debt coverage metrics (interest cover of 1.7 times and Debt/OPBDITA of ~4.4 times in FY2018E).

¹ 100 lakh = 1 crore = 10 million

² 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 the pace of order inflows and execution, while achieving a material improvement in profitability and working capital cycle will be the key rating sensitivities. In addition, the timing, scale and funding mix of capital expenditure undertaken by the company will be a key rating sensitivity.

Outlook: Negative

Notwithstanding the improvement in AAL's operating profitability and working capital intensity, its overall credit metrics remain modest and vulnerable to the intense competition in the industry. Accordingly, outlook on the rating continues to be 'Negative'. The outlook may be revised to 'Stable' if the company reports higher than anticipated improvement in operating profitability and working capital intensity, while maintaining a healthy revenue visibility on a sustainable basis.

Key rating drivers

Credit strengths

Established operational track record, with a wide product portfolio, steady technological tie-ups and demonstrated ability to secure business from reputed clients - The company has an established track record of almost three decades of securing repeat business from the IR and working for reputed clients such as metro projects (largely DMRC), BHEL & BEML which has been supported by regular additions to its product portfolio over the years. Besides in-house research and development, AAL's ability to venture into newer product categories has been supported by its ability to enter and maintain technological tie-ups with international entities.

Comfortable order-book position – Supported by a wide and gradually expanding product portfolio and demonstrated stability in revenue generation from mature product categories, AAL's order book position continues to be healthy, providing revenue visibility for the next 12-15 months. Although with large orders received in the escalators segment, the share of mature products (including static power converters, power switchgears and control switchgears) had declined to ~32% in FY2017 from ~61% in FY2013, these continue to be the steady revenue generators for the company.

Strong Net-worth position- AAL's balance-sheet is strongly funded facilitated by a strong net-worth base of Rs. 112 crore (as on March 31, 2017). This is also reflected in an estimated total debt/ tangible net worth of ~0.50 times and current ratio of 1.90 times in FY2018E, which provides some cushion to the company to absorb losses as have been experienced in the recent years, particularly in the new product lines.

Credit challenges

Intense competition, resulting in modest profitability and return indicators- During the past few years, AAL has witnessed increased competition in its mature product categories. This together with increased proportion of lower-margin escalators business affected the company's profitability, resulting in a decline in operating margins and ROCE to ~1% and 0.8% in FY2015 from ~14.8% and ~18.3% in FY2013 respectively. Although with increased service revenues, cost rationalisation pressures and reduced price-competition, the operating margins and ROCE have gradually recovered to ~4.75% and ~5.9% in FY2017, these continue to remain low.

Working capital intensive nature of operations – AAL's business is highly working capital intensive, with a stretched receivable turnover period as well as high inventory-holding requirements, owing to the large ticket size of orders and elongated delivery schedules linked to project execution cycles. AAL's working capital intensity, as reflected in its NWC/OI, had peaked at more than 60% between FY2014 and FY2016, owing to increased proportion of project-based escalators business, which involved retention money as well as milestone-linked payments. Accordingly, delays in project

completion and commissioning at the client's end affected its receivable position. Although slight moderation in working capital cycle has been witnessed over the past two-three years, it continues to be stretched (NWC/ OI of ~85% in 9MFY2018).

Modest debt-coverage metrics – Profitability pressures together with high working capital intensity, entailing high reliance on working capital debt has resulted in a modest coverage metrics for the company. This is reflected in an interest cover of 1.4 times and NCA/ Debt of 10% in FY2017.

High client concentration risk - AAL faces high client concentration risk with IR, DMRC, BHEL & BEML together accounting for more than ~60-70% of its total sales over the last two years. This in turn exposes AAL to risks like slower project movements and elongated receivables turnover period. Although the counterparty credit risk is low with more than 90% receivables from Government entities, it faces a stretched operating cycle with ~22-23% of Government receivables outstanding for more than 180 days. ICRA notes that timely enhancement in working capital limits from banks has alleviated funding concerns to some extent.

High dependence on technical alliances for securing new product orders – Although AAL has demonstrated its ability to enter into and maintain technological tie ups over the years, continued dependence on technical alliances for securing new product orders, amid increasing competition and lower order inflows of matured products increases the company's exposure to competitive forces, posing challenges for growth and profitability.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1959, AAL manufactures and sells engineered products such as tachographs, relays, vacuum circuit breakers, auxillary converters, inverters, converters, passenger information systems, connectors, tap changers, master-controllers, uninterrupted power supply (UPS) system and electric panels for railway and industrial applications. Since FY2013, the company also started tendering for metro projects for supply, installation, and commissioning of escalators. AAL's manufacturing units are located in Noida (Uttar Pradesh) and Nalagarh (Himachal Pradesh) and most of its products are supplied to various units of the Indian Railways, Metros, BHEL & BEML.

In FY2017, the company reported a net profit of Rs. 2.69 crore on an operating income (OI) of Rs. 247.10 crore, as compared to a net loss of Rs. 1.10 crore on an OI of Rs. 193.10 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	193.10	247.10
Profit after tax (Rs. crore)	(1.10)	2.69
OPBDIT/ OI (%)	3.33%	4.75%
RoCE (%)	2.61%	5.93%
Total Debt/ TNW (times)	0.55	0.68
Total Debt/ OPBDIT (times)	9.30	6.49
Interest Coverage (times)	1.20	1.46
NWC/ OI (%)	69%	64%

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); TNW: Tangible Net Worth; NWC: Net Working Capital

Source: AAL's Annual Reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Chronology of Rating History for the past 3 years								
Instrument	Type	Amount Rated (Rs. crore)	Amount outstanding (Rs crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				Mar 2018	Jan 2017	Dec 2015	Jan 2015	
1	Cash Credit	Long Term	40.00	--	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Stable)
2	Overdraft	Short Term	40.00	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A2+
3	Bank guarantee	Long Term	135.00	--	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Stable)
4	Letter of Credit	Short Term	15.00	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	26-Feb-2018	--	NA	40.00	[ICRA]BBB(Negative)
NA	Overdraft	26-Feb-2018	--	NA	40.00	[ICRA]A3+
NA	Bank guarantee	26-Feb-2018	--	NA	135.00	[ICRA]BBB(Negative)
NA	Letter of Credit	26-Feb-2018	--	NA	15.00	[ICRA]A3+

Source: Autometers Alliance Limited

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