

Autocomp Corporation Panse Private Limited

February 26, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term loan	32.81	58.00	[ICRA]BBB (Stable); Reaffirmed
Fund based- Working Capital Facilities	37.00	50.00	[ICRA]BBB (Stable); Reaffirmed
Non-fund based- Letter of Credit/Bank Guarantee	16.00	25.00	[ICRA]A3+; Reaffirmed
Fund based-Unallocated	18.69	0.00	-
Total	104.50	133.00	

* Instrument details mentioned in Annexure-1

Rationale

The ratings reaffirmation takes into account the steady revenue growth recorded in FY2018 and 10MFY2019 from fairly high capacity utilisation across manufacturing facilities. This was driven by supply of components for new models of the existing Original Equipment Manufacturers (OEMs) as well as addition of new OEMs, increasing share from high margin tooling business and greater diversification in multi segments in automobile industry viz, two-wheeler (2W), light commercial vehicles (LCV), Sports Utility Vehicle (SUV) and tractor. The rating continues to take into consideration the track record of promoters in auto ancillary segment and the established relationship of the company with OEMs like Tata Motors Limited(TML), Bajaj Auto Limited(BAL) and Mahindra & Mahindra Ltd (M&M) with healthy share of business with them for components catered to by ACPL along with technological collaboration through joint ventures. The ratings also take into account the comfortable capital structure and adequate interest coverage indicators of the company despite the regular debt funded capital expenditure. Additionally, ICRA believes the growth for auto component industry to be higher than underlying automotive industry growth in FY2019 given the increasing localization by OEMs, higher component content per vehicle and rising exports from India.

The ratings, however, remain constrained by the Return on Capital Employed (ROCE) and negative free cash flow position for the period FY2016-2018 owing to the regular debt funded capex which has also impacted the debt service cover as represented by DSCR of less than 1.6 times during the same period. The ratings also factor in the future debt funded capex plan by the company in FY2019 and FY2020 for proposed capacity expansion in its existing plants which is likely to translate into sizable debt repayments over the medium term. The ratings also incorporate the risks arising from limited client diversification with ACPL's top three clients; TML, M&M and BAL, accounting for ~76% of its revenues in FY2018(including catered to through Tier I/II suppliers). While the company benefits from the wide domestic presence of its principal OEMs, such sizeable customer concentration renders the business operations to the performance of its key customers and any decline in market share of these OEMs given the cyclical nature of the automobile industry in India directly impacts the performance of the company.

Going forward, maintaining a sustainable growth in revenues, improvement in profitability by increasing value addition in the product profile, optimal capacity utilisation of all the plants along with commensurate returns from the proposed capex and efficient working capital management would be the key rating sensitivities.

Outlook: Stable

ICRA believes ACPL will continue to benefit from the extensive experience of the promoter in the auto ancillary industry and the established relationship of the company with OEMs along with healthy share of business with TML, M&M and BAL. The outlook may be revised to 'Positive' if the company reports strong revenue growth, gains a meaningful market share and reports considerable improvement in the operating margins which will strengthen its accruals position. The outlook may be revised to 'Negative' if the company fails to maintain adequate financial flexibility on account of any slowdown in the industry or weakening performance of its key customers or reducing share from tooling business which would put pressures on revenues and profitability and strain its liquidity position. ICRA also takes note of weakening performance of a key export OEM in FY2019 and its likely impact on ACPL's future prospective orders and thereby export revenue visibility. Any dematerialization of the anticipated orders would directly impact the export performance of the company in the medium term and will be a key monitorable. Further inability to operate at optimal capacity utilisation or lack of commensurate returns from the proposed debt funded capex will also impact the key credit metrics.

Key rating drivers

Credit strengths

Track record of promoters along with long standing relationship with key OEMs; dominant share of business in most of the components supplied-Incorporated in 1983, ACPL is a prominent supplier of sheet metal pressed parts to leading automobile OEMs like TML, BAL and M&M. The founder of the company Mr. Rajeev Panse; is a mechanical engineer have prior experience of around three decades in large OEMs in India. ACPL is held closely with a majority (90.60%) shareholding with Mr. Rajeev Panse and is managed professionally through a team of experienced management personnel. The company caters to sheet metal component requirements of 2W for BAL, LCVs for TML and tractors for M&M with product profile including chassis, body panels, frames, seating panels and has high share of business in the components supplied to its key OEMs.

Multiple plant locations; catering to diversified location pan India closer to OEMs- ACPL currently operates from manufacturing units (including owned and rented ones) located in Chakan and Moshi near Pune, Pantnagar in Uttarakhand, Oragadam in Chennai and Dharwad in Karnataka. These plants cater to the requirements of respective OEMs situated nearby thus helping the company logistically in executing orders from these OEMs. Having a manufacturing base across diversified locations has helped the company in better market presence. The company has regularly incurred capex, for upgradation and/or capacity addition in its manufacturing facilities.

Greater diversification in multi segments-ACPL is diversified across segments like 2-wheelers, LCV, SUV and tractors in the auto industry and caters to various product requirements of the customers within these segments. The company's presence is diversified across these segments with no particular segment contributing more than 40% of the total revenues to the company. ACPL exports sheet metal components and also engages in high margin tooling business which has significant revenue and margin potential.

Increasing share of business of existing clients and addition of new clients leading to steady revenue growth in FY2018 and 10MFY2019- In FY2018, ACPL reported 27% YOY revenue growth supported by higher sales to TML and M&M for its LCV and tractor segment respectively. The growth in FY2018 was also driven by higher sales for the SUV segments of TML and M&M for launch of its new SUVs and export orders from Jaguar Land Rover (JLR) for its marquee models for supply of brackets and seating frames. This led to fairly high capacity utilization across its manufacturing facilities. Additionally, the tooling business has also witnessed an increasing trend YOY supporting revenues and profitability. With the current order book and pipe line of orders under discussion with reputed national and international OEMs, the growth in the medium term is expected to be steady.

Comfortable capital structure and adequate coverage indicators- Despite the regular debt-funded capex incurred, the capital structure has remained comfortable with a gearing of 0.71x in FY2018 on account of healthy net worth position. The working capital requirement is majorly supported by vendor financing scheme and bill discounting facility availed for its key OEMs. ACPL's major procurements are based on a tripartite agreement between principals and suppliers with credit period for the company going in line with credit period given to principals. Since the operations are tightly linked with those of its principals, the inventory maintained is relatively low at 35-40 days. The principals provide monthly production plans and accordingly inventory levels are determined in advance. The working capital intensity remained stable at 10% in FY2018 while the average working capital utilization is moderate at ~75% for the 12 months ended as on January 2019. The interest cover remained adequate with OPBDITA/Interest at 4.61x and TOL/TNW of 1.70x in FY2018.

Favorable outlook for auto component industry in medium term- Considering the increasing content per vehicle due to various technological advancement as well as regulatory measures (emission, safety regulations), strong OEM demands and higher realisations the growth in the auto component industry will be relatively higher than the underlying growth in the automotive industry in the medium to long term.

Credit challenges

High client concentration risks though mitigated to an extent by healthy share of business with its key domestic OEMs - TML, M&M and BAL, are ACPL's key clients which collectively generated ~76% of its revenues in FY2018 (including sales through Tier I/II suppliers of these OEMs). However, the company is also actively looking to diversify its customer base by entering into an agreement with few strategically important international clients in FY2019. Although ACPL enjoys strong share of business for most of the components it supplies and enjoys a long-term relationship with the OEMs, the company is exposed to concentration risk rendering the business operations vulnerable to the performance of its key OEMs. Further, shifting of production of OEMs to different location also poses risk and impacts revenues potential.

Weak performance and outlook of Jaguar Land Rover (JLR) (a key export OEM) a major deterrent to the overall future export performance of ACPL - JLR has 3% share in the overall revenues of ACPL. However, the share is expected to substantially increase further with higher orders from JLR for the next few years. JLR witnessed YoY de-growth of ~10.4% in its wholesale sales volume during 9M FY2019. Additionally, JLR reported substantial net loss of for the quarter ending Q3FY2019. In view of considerable order inflow anticipated from JLR in the near term, its weakened performance will result in a direct impact on the export performance of ACPL and will be a key monitorable going forward.

Limited value addition in the product profile resulting in moderate profitability - The existing product profile of the company has limited value addition, which restricts the operating margins of the company. Also, the margins have been thin due to lack of pricing power with the principals though the margins have improved in FY2018 on back of higher margin orders from die manufacturing operations in which margins are significantly better as compared to sheet metal components. Further, the ability of the company to increase revenue share from value-added components based on new technology and cost optimisation techniques will be reflected positively in its profitability indicators going forward.

Debt funded capex has muted the free cash flows and DSCR, future debt-funded capex to translate into sizable debt repayments over the medium term - The sizeable scheduled debt repayments over last three fiscals has resulted in moderation of DSCR as well as negative free cash flows. Additionally with additional debt in the medium term and the impending repayments, the DSCR is expected to remain below 2x over the medium term. The company has already incurred a debt funded capex amounting to Rs. 10.50 crore in 9MFY2019 and shall incur additional capex of Rs. 6-7 crore by the end of FY2019. The capex is primarily towards capacity additions in Chakan and Uttarakhand plants and installation of additional machineries at other locations. Also, in FY2020, ACPL is expected to incur capex for expansion of existing facility at Chakan by purchase of additional shed and machineries primarily to cater to requirements of export order of a key OEM. These capital expenditures will be majorly funded by external debt and will give rise to sizable debt repayments over the medium term. While this capex is expected to further support the scale of operations and provide

diversification benefits to the company, the same is likely to exert pressure on the ROCE, cash flows and DSCR in the near term. The company's ability to complete the envisaged debt-funded capex in a timely manner, scale up in a profitable manner by achieving optimal capacity utilization levels and generate commensurate returns will be critical from the credit perspective.

Vulnerable to the cyclical in the automobile industry – The business of the company is susceptible to the inherent cyclical associated in the automobile industry which impacts the performance of the overall segment and the players involved in the value chain; however, diversification in multi segments with healthy share of revenues per segment mitigates this risk to an extent.

Liquidity Position:

ACPL had external term loans of Rs. 41.61 crore on its books as on March 31, 2018; of which, Rs. 13.94 crore is scheduled to be repaid in FY2019. Despite the annual repayments pertaining to the existing loans, the repayment burden is expected to remain ~Rs. 14-15 crore till FY2021. Though the company reported negative free cash flows on back of sizeable capex incurred in last three fiscals, the liquidity profile of ACPL is characterized by sufficient cushion available (75% average utilization for last 12 months) in the form of unutilised sanctioned working capital limits, cash and liquid investments of Rs. 4.32 crore and net accruals position of Rs. 22.50 crore as of March 2018 which is expected to be adequate to meet the repayments in the future.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company:

ACPL is based out of Pune and is engaged in manufacturing sheet metal components catering to OEMs like TML, M&M and BAL for their two-wheeler, LCV segment, SUV and tractor segments. It was established as a proprietorship company in 1983 and subsequently converted to a private limited company in 2006. ACPL has five manufacturing units, two near Pune, one at Pantnagar, one at Chennai and one at Dharwad.

In FY2018, the company reported a net profit of Rs. 12.6 crore on an operating income of Rs. 438.8 crore, as compared to a net profit of Rs. 3.7 crore on an operating income of Rs. 346.1 crore in the previous year.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	346.1	438.8
PAT (Rs. crore)	3.7	12.6
OPBDIT/ OI (%)	7.1%	7.7%
RoCE (%)	9.1%	14.7%
Total Debt/ TNW (times)	0.8	0.7
Total Debt/ OPBDIT (times)	2.6	1.9
Interest coverage (times)	3.7	4.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rscore) as on Sep 2018	Date & Rating Feb 2019	Date & Rating in FY2018 Mar 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Jan 2016
1 Fund based-Term loan	Long Term	58.00	41.79	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Fund based- Working Capital Facilities	Long term	50.00		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3 Non-fund based	Short Term	25.00		[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3
4 Fund based- Unallocated	Long Term	0.00		-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

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
-	Fund based-Term loan	Dec-2016	-	Dec-2023	58.00	[ICRA]BBB(Stable)
-	Fund based- Working Capital Facilities	-	-	-	50.00	[ICRA]BBB(Stable)
-	Non-fund based facilities	-	-	-	25.00	[ICRA]A3+

Source: Autocomp Corporation Panse Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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