

Rating Rationale

November 26, 2021 | Mumbai

Autotech Industries India Private Limited

Ratings upgraded to 'CRISIL A+/Stable/CRISIL A1+'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.71.6 Crore (Enhanced from Rs.43.88 Crore)
Long Term Rating	CRISIL A+/Stable (Upgraded from 'CRISIL A/Positive')
Short Term Rating	CRISIL A1+ (Upgraded from 'CRISIL A1')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Autotech Industries India Private Limited (Autotech) to 'CRISIL A+/Stable/CRISIL A1+' from 'CRISIL A/Positive/CRISIL A1'.

The ratings actions reflect the expected sustenance of improvement in business risk profile driven by increasing offtake from existing clients supported by the revival in demand for commercial vehicles globally. The company's initiatives to add newer products to existing customers will also aid growth. The financial risk profile and liquidity are expected to further improve with higher accruals and moderate fund requirements for capex and incremental working capital.

The company's revenues grew by 9% in fiscal 2021 despite the pandemic driven by increased demand for end user commercial vehicles industry in the US and Europe. Operating margins improved by 200 bps to 24.5% driven by lower raw material costs and cost savings.

In fiscal 2022, the revenues are expected to grow by 20% driven by higher orders from existing customers. Operating margins are expected to moderate at around 23-24% due to higher raw material costs and increased employee costs. Over the medium term, the revenues are expected to grow at a CAGR of 13-15% and operating margins are expected to sustain.

The company is undertaking a capital expenditure of Rs.60 crore to expand its rocker arm capacity and to increase the capacity of captive foundry. The expansion plan is expected to be completed by March 2022 and begin operations from Q2'23. The capex plan is majorly funded by Rs.42 crore of FCNRB loans. Despite surplus funds, the company is availing FCNRB loans to benefit on low interest cost. Despite the debt addition, the debt protection metrics remains robust, and the financial profile is expected to remain healthy.

The ratings continue to reflect the established position of Autotech in the automotive (auto) components industry supported by a status as major supplier of rocker assemblies to its customers. The ratings also factor in a strong financial risk profile and liquidity driven by low debt level, healthy networth and strong liquid surplus of Rs.192 crore as on March 31,2021. These strengths are partially offset by exposure to concentration risk in revenue profile and vulnerability to fluctuations in raw material prices and foreign exchange (forex) rates.

Key Rating Drivers & Detailed Description

Strengths:

- Established market position in the auto components industry:**

Autotech has established longstanding relationships with reputed customers such as Cummins Inc (S&P Global Ratings [S&P] A+/Stable/A1) for close to two decades, Scania AB (S&P BBB/Negative/A2), Lucas-TVS Ltd ('CRISIL AA+/Negative/CRISIL A1+'; associated since 1984), Tata Motors Ltd ('CRISIL AA-/Stable/CRISIL A1+'; 1986), Tata Cummins Ltd (1994), and Volvo India Ltd (2002). The company also enjoys a healthy share of business and has set up dedicated manufacturing facilities for each client. These large players in the US and Europe commercial vehicles industry benefited from increased demand. The consequent hike in orders helped Autotech tide over the pandemic with ease. Benefits from a strong market position and healthy relation with customers should continue to support the business.

- Strong financial risk profile**

Autotech's financial risk profile is marked by healthy capital structure and strong debt protection metrics. While debt is modest, networth is estimated to be above Rs 400 crore at end of fiscal 2021. The company also had healthy liquid surplus of around Rs 190 crore as of March 2021. Cash generation is expected to be healthy over the medium term which will further strengthen the financial profile and further increase the cash surplus.

Weaknesses:

- Exposure to concentration risk in revenue profile**

Autotech derives its entire revenue from original equipment manufacturers (OEMs) catering largely to commercial vehicle segment, with the Cummins group and Scania AB alone contributing to 40-45% of sales; however, the share of revenue from the Cummins group has reduced over the last few years. Further geographic diversity in revenue (exports account for around 80%, balance is from domestic market) will render a certain stability to business in case of slowdown in any particular market. Although partly mitigated by established relationship with clients, risks related to revenue concentration will persist over the medium term.

• **Vulnerability to fluctuations in raw material prices and forex rates**

Since cost of procuring the raw material accounts for 50-55% of the cost of sales, even a slight variation in price can drastically impact profitability. Given the high dependence on OEMs, wherein vendor pricing pressure is predominant, profitability will remain partly susceptible to steep variations in input costs and forex rates. However, Autotech has escalation clauses to hedge against fluctuations in forex rates on receivables from the Cummins group and Scania; forex receivables are also hedged through forward contracts. Besides, changes in input price are reviewed every six months. Nevertheless, given the large exposure to OEMs, profitability will remain vulnerable to any steep fluctuations in raw material prices and forex rates.

Liquidity: Strong

Liquidity should remain healthy. Cash accrual is projected at more than Rs 100 crore per annum over the medium term, sufficient to meet the repayment obligation of around Rs 16-20 crore over the medium term. Cash and cash equivalent were over Rs 192 crore as on March 31, 2021 which will be adequate to fund incremental working capital requirement and capital expenditure.

Outlook: Stable

CRISIL Ratings believes that Autotech's credit risk profile will benefit over the medium term from its established clientele, healthy share of business with them, launch of new products and strong financial risk profile.

Rating Sensitivity factors

Upward factors

- Sustained revenue growth of ~20% and healthy operating profitability of at 25-27% leading to health cash generation
- Sustenance of strong financial risk profile and healthy liquid surplus

Downward factors

- Decline in offtake by its key customers, adversely affecting its revenues and operating margins falling below 15%
- Large debt-funded capex or significant stretch in its working capital cycle leading to steep moderation in debt metrics
- Depletion in liquid surplus, including through large dividend payouts or for funding material capex

About the Company

The partnership firm, Autotech Industries, set up in 1984 by Mr K S Jeyaraman and Mr S Rajarathinam was acquired by Autotech, set up and registered in 1997 under the directorship of the promoters. Autotech manufactures precision auto components and assemblies. It is the sole source of rocker assemblies for most customers. The company also specialises in other engine and power train components such as oil pump shafts, fuel systems parts, idler shafts and shifter shafts.

Key Financial Indicators

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	413	385
Reported profit after tax (PAT)	Rs crore	83	49
PAT margins	%	20.0	12.8
Adjusted debt/adjusted networkth	Times	0.06	0.11
Interest coverage	Times	42.40	27.81

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity level	Rating Assigned with Outlook
NA	Letter of Credit*	NA	NA	NA	5.58	NA	CRISIL A1+
NA	Export Packing Credit	NA	NA	NA	1.00	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Mar-26	42	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	May-23	4.24	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	May-24	10.83	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Oct-22	0.77	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Mar-23	7.18	NA	CRISIL A+/Stable

*Includes Rs 5.58 crore of Credit Exposure limit as sub-limit

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	66.02	CRISIL A+/Stable	07-04-21	CRISIL A/Positive		--	31-12-19	CRISIL A1 / CRISIL A/Stable	28-09-18	CRISIL A1 / CRISIL A/Stable	CRISIL A1 / CRISIL A/Stable
			--	25-03-21	CRISIL A/Positive / CRISIL A1		--		--		--	--
Non-Fund Based Facilities	ST	5.58	CRISIL A1+	07-04-21	CRISIL A1		--	31-12-19	CRISIL A1	28-09-18	CRISIL A1	CRISIL A1
			--	25-03-21	CRISIL A1		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Export Packing Credit	1	State Bank of India	CRISIL A+/Stable
Letter of Credit*	5.58	State Bank of India	CRISIL A1+
Term Loan	10.83	State Bank of India	CRISIL A+/Stable
Term Loan	14.28	State Bank of India	CRISIL A+/Stable
Term Loan	4.24	State Bank of India	CRISIL A+/Stable
Term Loan	0.77	State Bank of India	CRISIL A+/Stable
Term Loan	7.18	State Bank of India	CRISIL A+/Stable
Term Loan	22.72	State Bank of India	CRISIL A+/Stable
Term Loan	5	State Bank of India	CRISIL A+/Stable

*Includes Rs 5.58 crore of Credit Exposure limit as sub-limit

This Annexure has been updated on 26-Nov-2021 in line with the lender-wise facility details as on 26-Nov-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Auto Component Suppliers
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Pankaj Rawat Media Relations CRISIL Limited B: +91 22 3342 3000 pankaj.rawat@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Anuj Sethi Senior Director CRISIL Ratings Limited B:+91 44 6656 3100 anuj.sethi@crisil.com</p> <p>Rajeswari Karthigeyan Associate Director CRISIL Ratings Limited D:+91 44 6656 3139 rajeswari.karthigeyan@crisil.com</p> <p>Sree Sankar Madhu Rating Analyst CRISIL Ratings Limited B:+91 44 6656 3100 Sree.Madhu@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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