February 25, 2022

Autocomp Corporation Panse Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund Based – Term Loans	53.69	28.44	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long Term, Fund Based – Cash Credit	76.00	81.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long Term, Unallocated Limits	26.45	21.56	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short Term, Non-Fund Based Limits	27.00	27.00	[ICRA]A2; upgraded from [ICRA]A3+
Total	**183.14**	**158.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade takes into consideration the increasing scale of operations of Autocomp Corporation Panse Private Limited (ACPPL) demonstrated in the present fiscal, aided by sizable recovery in the volume offtake from key customers of the company. Further, new client acquisitions in the recent past along with newer product offerings for the existing clients has resulted in greater diversification for ACPPL. On the other hand, increasing share of exports has ensured higher geographic diversification for the company.

The ratings continue to draw comfort from the long and established track record of the promoters of ACPPL in the auto ancillary industry. In its operational track record spanning over three decades, ACPPL has developed established relationships with key original equipment manufacturers (OEMs) resulting in sufficient revenue visibility for the company. The company demonstrates a healthy share of business in most of the components supplied to the OEMs, highlighting its importance as a key supplier for the customers. Further, segmental diversification in terms of different auto segments catered to by the company—two wheelers (2W), light commercial vehicles (LCVs), passenger vehicles (PVs), sports utility vehicles (SUVs) and tractors—gels well with the operational stability, and safeguards ACPPL's business against any sector-specific slowdowns to an extent. The company continues to demonstrate a comfortable capital structure with a gearing of 0.6 time as on March 31, 2021. The healthy revenue growth in the present fiscal along with anticipated growth momentum is expected to keep the accrual position healthy over the near to medium term, which would further strengthen the capital structure, going forward. ICRA also notes ACPPL's working capital profile, which is supported by a vendor financing scheme for Tata Motors Ltd (TML), one of the key customers for the company.

The rating strengths are partially offset by the exposure of ACPPL's revenue profile to the inherent cyclicality in the auto industry. Any sizable downturn in the auto industry could therefore have a severe impact on ACPPL's business operations. ACPPL's performance also remains largely interlinked with the performance of the principal OEMs, with the company reporting a high degree of customer concentration, with its top customer driving ~38% of its sales in 9M FY2022. Further, the high competitive intensity in ACPPL's business segments results in restricted pricing flexibility leading to a bracketed operating profitability over the years. However, the company's focus on high value-added products is expected to support the margins to an extent, going forward. ACPPL's coverage indicators remain moderate at present, as reflected by an interest coverage of 3.2 times in FY2021. Further, given the sizable debt repayment quantum over the near term, its DSCR is expected to remain moderate over the next 2-3 years.

Key rating drivers and their description

Credit strengths

Long and established track record of promoters in the auto ancillary industry – Having established ACPPL in 1983, its promoters have a long and established track record in the auto ancillary industry. This has ensured a wider brand presence for ACPPL.

Established relationship with key OEMs; healthy share of business in most components supplied by the company – Given its long operational track record, ACPPL has developed strong relationships with key OEMs across diversified sectors, which ensures sufficient revenue visibility through repeat orders from its clientele. Further, with the company demonstrating a healthy share of business (even 100% for few product categories) in most of the components supplied to key OEMs, it can quickly scale up its top line with volume offtake from the top few customers. The company has also added a few new customers along with new product categories, which is expected to enhance the operational diversification, going forward.

Caters to diversified auto segments – ACPPL demonstrates considerable segmental diversification, as it caters to a wide array of auto sectors—viz., 2Ws, PVs, SUVs, LCVs, and tractors, among others. This diversified presence ensures certain safeguarding of ACPPL's business against any sector-specific risks impacting any particular auto segment.

Comfortable capital structure with healthy revenue growth in the present fiscal – ACPPL continues to demonstrate a comfortable capital structure, backed by sizable reduction in debt level in FY2021 and steady expansion of net worth position over the years. The revival in volume offtake in FY2022 is expected to fuel healthy revenue growth over the near term, which would further strengthen the capital structure, going forward. Further, ACPPL's working capital profile continues to draw comfort through vendor financing facility for TML, one of its key principal OEMs.

Credit challenges

Revenue profile exposed to cyclicality inherent in auto industry – Given the operational exposure of ACPPL towards the auto sector, its business performance is closely linked with the performance of the sector in general. Many of the segments within the industry show an inherent cyclicality in demand, which may result in scattered revenue generation for ACPPL, in line with the industry trend. Further, any substantial slowdown in the auto industry could have a severe impact on the business operations of ACPPL.

High competitive intensity resulting in restricted pricing flexibility – The sheet metal component business is characterised by high competitive intensity in the industry that restricts ACPPL's pricing flexibility to an extent. However, ACPPL's profitability is expected to be supported by its complete engineering solutions, which yield healthy margins and would support its overall profitability. The company's established relationships with its key customers also provide some cushion against the said risk.

Moderate coverage indicators – On account of sizable debt-funded capital expenditure (capex) incurred in the recent past, ACPPL's coverage indicators remained moderate. However, the company does not have any sizeable capex lined up over the medium term, which may result in gradual improvement in coverage indicators, going forward. Further, aided by healthy accrual generation in the present fiscal (FY2022), the DSCR position (which had been moderate in the recent past) is expected to gradually improve. Steady accrual generation is expected to accommodate the sizeable debt repayment lined up over the near term.

Business operations vulnerable to performance of principal OEMs with high customer concentration risk – With the company supplying various sheet metal components to its key customers, such as TML, Mahindra & Mahindra Limited (M&M), and BAL, ACPPL's business performance is closely linked with the business performance of these OEMs. The business operations of ACPPL are, therefore, vulnerable to the performance of the principal OEMs. Any considerable fall in the sales pace of these OEMs could result in subsequent decline in the revenue base of ACPPL. Further, the company remains exposed to high customer concentration risk, with its top three customers driving ~63% of its revenues in 9M FY2022. However, ACPPL's established relationships with its key customers along with presence of segmental diversification for the products supplied to the largest customer provide some comfort against this risk.

Liquidity position: Adequate

ACPPL's liquidity position remains **adequate**, supported by a moderate cash and equivalents balance of ~Rs. 10 crore as on March 31, 2021, and buffer in the form of undrawn working capital limits, which stood at ~Rs. 30 crore as on December 31, 2021. Although the long-term debt repayment over the near term remains sizeable, the cash flows are expected to remain comfortable in meeting the company's debt repayment obligations, going forward.

Rating sensitivities

Positive factors – The rating could be upgraded if the entity shows sustained growth in its revenues, coupled with improved margins on a sustained basis. Maintaining ROCE above 16% on a sustained basis may lead to a rating upgrade.

Negative factors – The rating could be downgraded in case of considerable degrowth in the revenue base of the entity, or if deterioration in margins leads to adverse impact on key credit metrics (interest coverage falling below 3.0 times and RoCE falling below 10% on a sustained basis). Moreover, any large, debt-funded capex or stretch in working capital cycle that weakens the liquidity profile may necessitate a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of ACPPL.

About the company

ACPPL is based out of Pune, Maharashtra, and is engaged in manufacturing sheet metal components for OEMs such as BAL and TML for their 2Ws and LCVs, respectively. It also manufactures sheet metal components for the SUV and tractor segments of M&M. Chassis components, assembly parts, tubular structures are a few of its key product offerings. It was established as a proprietorship company in 1983 and subsequently converted to a private limited company in 2006. ACPPL has manufacturing units in Pantnagar (Uttarakhand), Chakan (Maharashtra), and Oragadam (Tamil Nadu).

Key financial indicators

ACPPL	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	461.6	470.3
PAT (Rs. crore)	8.2	8.3
OPBDIT/OI (%)	6.1%	6.3%
PAT/OI (%)	1.8%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.4
Total Debt/OPBDIT (times)	3.4	2.2
Interest Coverage (times)	2.7	3.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: ACPPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					February 25, 2022	November 4, 2020 July 7, 2020	-	February 26, 2019
1	Term Loan	Long-Term	28.44	28.44	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Working Capital Facilities	Long-Term	81.00	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3	Unallocated Limits	Long-Term	21.56	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-
4	Non-Fund Based Limits	Short-Term	27.00	NA	[ICRA]A2	[ICRA]A3+	-	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term, Fund Based – Term Loans	Simple
Long Term, Fund Based – Working Capital Facilities	Simple
Long Term, Unallocated Limits	NA
Non Fund Based Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Term Loan	Dec-2016	10.5%	Dec-2023	28.44	[ICRA]BBB+ (Stable)
NA	Working Capital Facilities	NA	NA	NA	81.00	[ICRA]BBB+ (Stable)
NA	Long-Term, Unallocated Limits	NA	NA	NA	21.56	[ICRA]BBB+ (Stable)
NA	Non-Fund Based Facilities	NA	NA	NA	27.00	[ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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