June 28, 2024

Tech Auto Private Limited: Ratings downgraded to [ICRA]BBB+(Stable)/ [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based/ Cash Credit	7.40	7.40	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Short-term – Non-fund Based	0.10	0.10	[ICRA]A2; downgraded from [ICRA]A2+
Total	**7.50**	**7.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade considers the shares buyback executed by Tech Auto Private Limited (TAPL), resulting in dilution of its net worth by Rs. 9.8 crore, which led to weaker-than-expected liquidity as on March 31, 2024. ICRA also notes that the buyback in FY2024 followed a similar exercise undertaken in FY2022, resulting in a dilution of its net worth by Rs. 9.7 crore. The rating action further notes the company's inability to scale up its revenues and profitability over the past few fiscals. Over the last five years, the revenue of the company has declined from ~Rs. 198 crore in FY2019 to Rs. 153 crore in FY2024. TAPL's modest scale of operations limits its ability to derive benefits from economies of scale. The ratings are also constrained by the company's high dependence on the domestic two-wheeler (2W) industry, particularly TVS Motor Company Limited (TVS Motor), which accounted for ~70% of its revenues in FY2024. Moreover, ICRA expects the long-term demand prospects of the company to be impacted by the growing penetration of electric vehicles (EV) in the market. While TAPL is making efforts to foray into products for the EV segment, the same remains nominal currently and scaling it up will remain critical. Also, TAPL's efforts to reduce its dependence on TVS Motors gradually with foray in the replacement market, is also at a very initial stage. The ratings also consider intense competition from other domestic incumbents, which impacts the pricing power with the OEMs. The ratings also factor in the susceptibility of TAPL's margins to fluctuations in raw material prices and foreign currency.

However, the ratings remain supported by TAPL's established business position as one of the leading suppliers of sprockets and sprocket assemblies to TVS Motor in the domestic market. TAPL's financial profile remains healthy with a low gearing, strong coverage indicators and a moderate working capital cycle. The cash and bank balances of the company declined in FY2024 on account of the buyback, but still remained healthy. While the company's long-term debt has declined in FY2024, it is expected to increase going forward owing to debt-funded capex planned for FY2025 for diversifying further into the replacement market. The ratings also factor in the company's efforts to diversify its revenues and introduce products in the aftermarket and EV-compliant products. However, scale-up of revenues from such products has been slower than expected.

The Stable outlook on the long-term rating reflects ICRA's opinion that TAPL will continue to benefit from the experience of the promoters in the industry, along with its long association with TVS Motors. This apart, scaling up of new businesses is also expected to augur well for the company.

Key rating drivers and their description

Credit strengths

Experienced promoters with established relationship with TVS Motor – The promoters and their families have been involved in the auto component manufacturing industry for more than three decades. In addition, TAPL is one of the leading suppliers of sprockets and sprocket assemblies to TVS Motor and has been associated with it for over 15 years. It has managed to sustain its business share on the back of regular investments in capacities and maintaining quality standards.

Comfortable financial risk profile – TAPL maintains a strong capital structure, as reflected by limited debt position as on March 31, 2024. That said, the accretion to the net worth has been slower than expected owing to buybacks in FY2022 and FY2024. However, the gearing has been healthy owing to limited debt level. The coverage indicators are likely to slightly moderate but remain healthy, going forward, considering the term debt, which is planned to be availed to fund the capex requirements in FY2025. This apart, the liquidity has also moderated in FY2024 but remained adequate on the back of substantial cushion in the working capital limits and free cash balances as on March 31, 2024.

Diversification towards EV and replacement market products augurs well –The company had started diversifying towards developing pressure die casts (PDC)-based products for EVs to reduce dependence on the 2W industry and TVS Motor. However, in FY2023 and FY2024, the overall contribution from these segments has been nominal, and ramp-up in the same is expected to remain gradual. The company has also diversified its revenues by entering the replacement market for sprockets for other 2W OEMs. The trajectory of the ramp-up in these recently added verticals remains critical.

Credit challenges

Regular share buyback adversely impacting net worth – The company executed back-to-back buybacks., of Rs. 9.69 crore in FY2022 and Rs 9.80 crore in FY2024. These buybacks have resulted in a gradual build-up in the net worth of the company, eventually resulting in erosion of liquidity as the buyback in FY2024 was funded entirely through internal accruals and cash surplus, which was parked in fixed deposits. The adverse impact of buyback on the net worth is more pronounced in case of TAPL because of its modest scale of operations and range-bound top line.

Moderate scale of operations with high client concentration risk – The company's overall scale of operations remains moderate with revenues of ~Rs. 153 crore in FY2024 and the same is expected to remain rangebound, going forward. This limits its ability to absorb the fixed overheads effectively and benefit from the economies of scale. Moreover, TAPL derives a major part of its revenues from the 2W segment, which exposes it to the inherent cyclicality in the automotive industry. Within the 2W segment, the company's sales are largely concentrated towards TVS Motors, which contributed ~69% to the total sales in FY2024.

Limited presence in EV segment may dampen long-term demand prospects – The company has started looking at other avenues such as EVs and replacement market, to increase its product base and gradually reduce its dependence on TVS Motor. However, both the verticals are at a very nascent stage and the company's ability to scale up in both the avenues will continue to remain critical, particularly towards EVs, where market penetration has been rapid.

Profitability exposed to fluctuations in steel price movements – The price of steel, which is the key raw material, moves in tandem with the commodity cycle and, hence, is subject to fluctuations. Any such price fluctuations, which TAPL may not be able to pass on to the customers may impact its profitability. Further, with no formal hedging policy in place, the company's profitability remains exposed to adverse fluctuations in foreign currency.

Liquidity position: Adequate

The liquidity position remains adequate, supported by sizeable cash balances (~Rs. 12 crore as of March 31, 2024), further aided by low utilisation of working capital facilities (which stood at ~10% against the sanctioned limits of Rs. 10 crore and ~10% against the drawing power of Rs. 8.5 crore in the 12 months ending in March 2024). While the repayments are expected to increase from FY2026, the cash flows would remain sufficient to meet the funding requirements. The repayments in FY2025 and FY2026 are expected to be Rs. 1.45 crore and Rs. 1.59 crore, respectively.

Rating sensitivities

Positive factors – TAPL's low scale of operations currently restricts an upgrade in its long-term rating. However, a substantial scale-up in revenues over a diversified customer base while maintaining healthy credit metrics and liquidity position on a sustained basis would be considered for ratings upgrade.

Negative factors – The ratings may be revised downward if there is a material decline in scale and profitability, impacting TAPL's liquidity and credit metrics on a sustained basis. Besides, any large debt-funded capex, resulting in a material deterioration in the credit metrics, may also trigger ratings downgrade. Any further buyback or substantial dividend payout, impacting the liquidity, may also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TAPL is primarily involved in manufacturing sprockets and drum sprocket assemblies for 2Ws manufactured by TVS Motor. The company, promoted by Mr. Anil Gupta, began operations from 2001 by manufacturing sprockets from its unit in Ludhiana, Punjab. Thereafter, in 2006, it established a new unit in Hosur, Tamil Nadu, to manufacture drum sprocket assemblies for TVS Motor. Apart from catering to sprockets and sprocket assembly requirements of TVS Motor, a small portion of TAPL's overall revenues is derived from the export of certain sheet metal and tubular components. TAPL is also involved in manufacturing parts for tractors and seating components, which are exported largely to the US and Canada. Recently, the company has also diversified into developing casting parts for EVs as well as sprockets for the aftermarket.

Key financial indicators (audited)

TAPL Standalone	FY2022	FY2023	FY2024*
Operating income	159.8	153.2	153.4
PAT	10.4	8.1	8.7
OPBDIT/OI	12.1%	10.3%	9.5%
PAT/OI	6.5%	5.3%	5.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.4
Total debt/OPBDIT (times)	0.9	0.9	1.0
Interest coverage (times)	19.4	10.1	15.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	-	Mar 15, 2023	Dec 30, 2021
1	**Cash Credit**	Long Term	7.40	7.40	[ICRA]BBB+ (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	**Non-fund Based**	Short Term	0.10	0.10	[ICRA]A2	-	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based Cash Credit	Simple
Short Term - Non-Fund Based	Very 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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	7.40	[ICRA]BBB+ (Stable)
NA	**Non-fund Based**	NA	NA	NA	0.10	[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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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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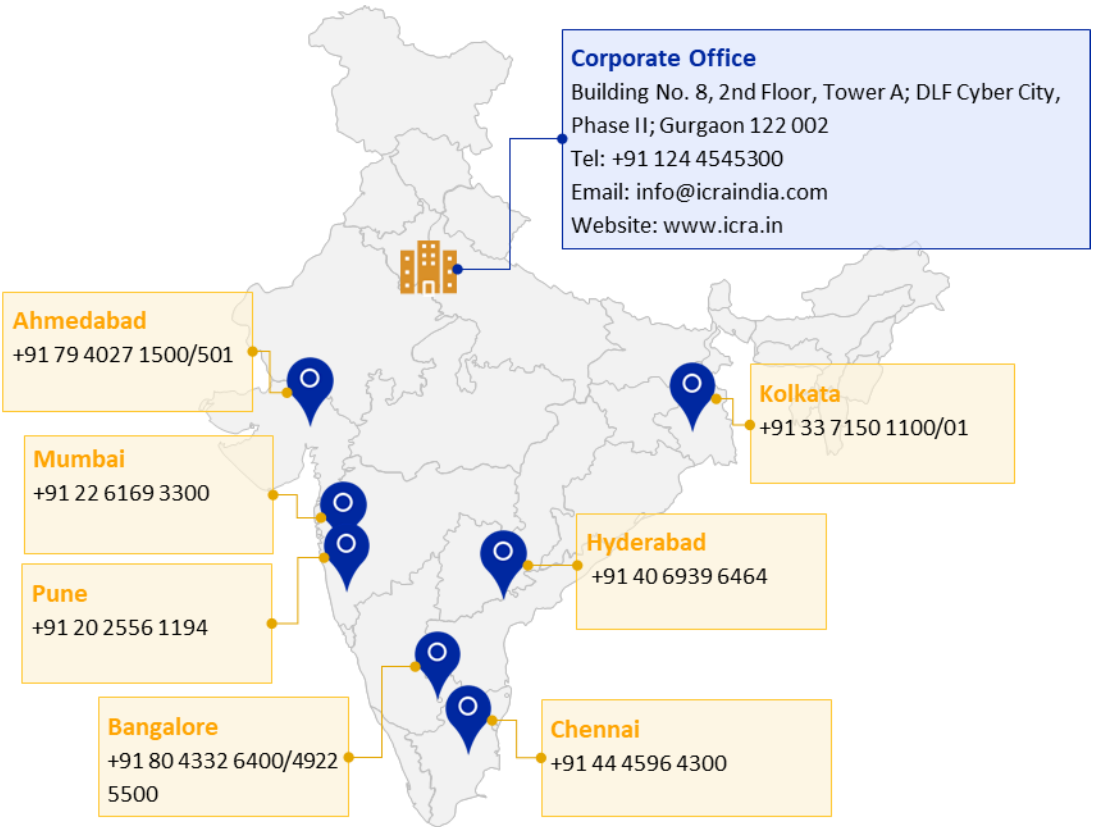

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