Press Release

Akar Auto Industries Limited

March 3, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	44.21	IVR BB+/ Stable (IVR double B plus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	31.00	IVR A4+ (IVR A four plus)	Assigned	Simple
Long Term/Short Term Bank Facilities	3.07	IVR BB+/ Stable/ IVR A4+ (IVR double B plus with Stable outlook and IVR A four plus)	Assigned	Simple
Total	**78.28 (INR Seventy eight crore and twenty eight lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Akar Auto Industries Limited (AAIL) derives strength from extensive experience of the promoters in the automotive component industry, reputed client profile, improvement in the revenue and profits in the current fiscal, and reputed and established clientele base. The ratings are, however, constrained by the leveraged capital structure and low coverage indicators, working capital intensive nature of operations, intense competition in automotive component industry which exert pressure on margins, exposure to cyclicality inherent in auto industry and foreign exchange fluctuations.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Effective working capital management with improvement in operating cycle and liquidity.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.

Any further increase in the operating cycle, which may adversely impact the company's liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters in the automotive component industry**

The promoters of AAIL have an extensive experience in the auto component manufacturing industry spanning around three decades which has enabled the company to establish and maintain a healthy relationship with the customers and suppliers. Promoters are well supported by an experience team of professionals.

- **Improvement in the revenue and profits in the current fiscal**

AAIL's total operating income came under pressure in FY20 and FY21, due to general economy slowdown, liquidity issue, BS VI transmission and impact of COVID-19 pandemic which weighed on its margins. The company reported a topline of Rs. 182.09 crore and net profit of Rs. 4.81 crore during 9M FY22 as against a topline of Rs. 117.83 crore and net losses of Rs. 3.76 crore during 9M FY21. However, the sustainability of such an improvement remains to be seen and will be a key rating metric, going forward.

- **Reputed and established clientele base**

The company clientele consists of reputed names including Ashok Leyland Limited, Tata Motors Limited, VE Commercial Vehicle Ltd, York Transport Equipment (India) Private Limited and Bajaj Auto Limited etc, which reduces counterparty risk to an extent.

Key Rating Weaknesses

- **Leveraged capital structure and low coverage indicators**

The capital structure of the company is leveraged as marked by the total debt of Rs. 78.94 crore (PY: Rs. 66.20 crore) as against the tangible net worth of Rs. 25.60 crore (PY: Rs.

28.57 crore). The overall gearing of the company stood at 3.08x (PY: 2.32x) as on March 31, 2021. On account of losses reported during FY20 and FY21, the debt coverage stood stressed as reflected from debt service coverage ratio which is below unity. Interest coverage remained low at 1.08 times in FY21 and was down from 1.22 times in FY20.

- **Working capital intensive nature of operations**

Being in auto ancillary industry, the operations of the company are working capital intensive in nature. The operating cycle of the company has increased to 129 days (PY: 112 days) for FY21. The increase was largely on account of piling up of inventory due to low business volume which has led to an increase in inventory period to 134 days (PY: 120 days) as on March 31, 2021. The company's working capital intensity also increased to 34% in FY21 from 25% in FY20.

- **Intense competition in automotive component industry exert pressure on margins**

Intense competition due to the presence of other automotive component manufacturers, which exerts pricing pressures, is likely to weigh on the company's operating margins. With increasing presence of domestic as well as international players in the automotive ancillary business, the competition had increased over the years. Nonetheless, AAIL's established relationship with its clients mitigates the risk to a certain extent.

- **Exposure to cyclicality inherent in auto industry**

The company's business is susceptible to inherent cyclicity in the automotive industry, linked to the performance of the economy

- **Exposure to foreign exchange fluctuation**

The company derived nearly 27% of its revenues from overseas which exposes it to foreign exchange fluctuation. AAIL hedges 50% of its forex exposure through forward cover and leaves the rest unhedged to take advantage of rupee depreciation, if any. This unhedged position exposes it to volatility in foreign exchange currency movement.

Analytical Approach: Standalone

Applicable Criteria:

Press Release

[Rating Methodology for Manufacturing Companies]
[Financial Ratios & Interpretation (Non- Financial Sector)]

Liquidity – Adequate

The liquidity position of Akar Auto Industries Limited is adequate marked by its expected gross cash accruals as against debt obligations from FY22 to FY24. At the same time, the company's bank limits are highly utilized to the extent of ~97% on an average for the period ended December 2021 indicating extensive utilization of working capital. Its current ratio was 1.14 times in FY21. However, no significant debt funded capex provides comfort to the liquidity to an extent.

About the Entity

Incorporated in 1989, Akar Auto Industries Limited is engaged in the manufacture of hi-quality precision engineered forging components, hand tools, tool kits and leaf springs for major auto and non-auto OEM's. The installed capacity of its manufacturing unit is 30,700 MTPA. Its products are supplied to major OEMs domestically and exported to North America, Netherlands, Mexico, Germany, Canada, UK, Nepal, Iran and Bangladesh. The company is listed on BSE.

Financials (Standalone):

For the year ended* / As on	31-March-20 (Audited)	31-March-21 (Audited)	9MFY22 (Unaudited)
Total Operating Income	198.83	188.06	182.09
EBITDA	9.35	8.70	13.55
PAT	-3.06	-2.84	4.81
Total Debt	66.20	78.94	-
Tangible Net-worth	28.57	25.60	-
EBITDA Margin (%)	4.70	4.62	7.45
PAT Margin (%)	-1.54	-1.50	2.64
Overall Gearing Ratio (x)	2.32	3.08	-

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

Brickwork Ratings continued to keep the rating of AAIL under the Issuer Non-Cooperating category on account of inadequate information for undertaking review and lack of management cooperation, as per the Press Release dated November 25, 2020.

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loans	Long Term	7.41	IVR BB+/ Stable	-	-	-
2.	WCDL	Long Term	1.15	IVR BB+/ Stable	-	-	-
3.	GECL	Long Term	14.85	IVR BB+/ Stable	-	-	-
4.	Cash Credit	Long Term	20.80	IVR BB+/ Stable	-	-	-
5.	Packing Credit	Short Term	12.50	IVR A4+	-	-	-
6.	FDB/FBE/BRD	Short Term	8.00	IVR A4+	-	-	-
7.	ILC	Short Term	8.00*	IVR A4+	-	-	-
8.	Bank Guarantee	Short Term	2.50*	IVR A4+	-	-	-
9.	Unallocated Limits	Long/Short Term	3.07	IVR BB+/ Stable/ IVR A4+	-	-	-

**one-way interchangeability from BG to LC*

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan - 1	-	-	FY23	1.01	IVR BB+/ Stable
Term Loan - 2	-	-	FY26	6.40	IVR BB+/ Stable

Working Capital Demand Loan	-	-	FY23	1.15	IVR BB+/ Stable
GECL -1	-	-	FY25	9.50	IVR BB+/ Stable
GECL - 2	-	-	FY27	5.35	IVR BB+/ Stable
Cash Credit	-	-	-	20.80	IVR BB+/ Stable
Packing Credit	-	-	-	12.50	IVR A4+
FDB/FBE/BRD	-	-	-	8.00	IVR A4+
ILC	-	-	-	8.00*	IVR A4+
Bank Guarantee	-	-	-	2.50*	IVR A4+
Unallocated Limits	-	-	-	3.07	IVR BB+/ Stable/ IVR A4+

one-way interchangeability from BG to LC

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Akar-Auto-lenders-mar22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com

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