Press Release

Akar Auto Industries Limited

November 4, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.33 (enhanced from Rs. 44.21 crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Revised	Simple
Short Term Bank Facilities	37.50 (enhanced from Rs. 31.00 crore)	IVR A3 (IVR A three)	Revised	Simple
Long Term/ Short Term Bank Facilities	0.00 (reduced from Rs. 3.07 crore)	-	-	-
Total	87.83 **(INR Eighty seven crore and eighty three lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Akar Auto Industries Limited (AAIL) considers significant improvement in the company's topline in FY2022 and Q1FY23, leading to a rise in the profit and cash accrual. Further, the ratings continue to derive comfort from extensive experience of promoters in the automotive component industry, diversified revenue stream with presence in both domestic and export markets and reputed and established clientele base. The ratings are, however, constrained by the leveraged capital structure and adequate 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 exposure to foreign exchange fluctuation.

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

- **Significant Improvement in the topline and profits during FY22 and Q1FY2023**

The topline of the company increased to Rs. 268.52 crore in FY22 as against Rs. 188.06 crore in FY21, depicting a y-o-y increase of ~42% on the back of increase in sales of auto components, driven by improvement in economic and operating environment. Consequently, the profits and cash accruals of the company also improved significantly in FY22. EBITDA and PAT increased to Rs. 19.19 crore (Rs. 8.07 crore in FY2021) and Rs. 6.88 crore (Rs. -2.84 crore), respectively, in FY2022. Also, the company achieved a topline of Rs. 82.60 crore in Q1FY23 as against a Rs. 56.68 crore in Q1FY22, registering a y-o-y increase of 46%. Consequently, EBITDA and PAT increased to Rs. 4.58 crore and Rs. 1.23, respectively, in Q1FY23 as against Rs. 4.20 and Rs. 1.17 crore respectively during the same period in the previous fiscal.

- **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.

- **Diversified revenue stream with presence in both domestic and export markets**

AAIIL has a diversified geographical presence in both the domestic and export markets, thus insulating it to an extent against moderation in demand from any one market. Exports account for ~30% of its revenue in FY22 and the rest constitute domestic sales. Exports at the company have increased steadily over the years and is expected to increase to ~35% in the coming years as the company remains focussed on scaling up the same.

- **Reputed and established clientele base**

The company clientele consists of reputed names including Harbor Freight Tools, Ashok Leyland Limited, Volvo Eicher 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 adequate coverage indicators**

The company's adjusted net worth as on March 31, 2022, consist of subordinated unsecured loans aggregating to Rs. 4.93 crore from the promoters which is considered as quasi equity. As on March 31, 2022, there was Rs. 5.15 crore of loans from directors, compared with Rs. 7.16 crore as on March 31, 2021. Considering the same the adjusted tangible net worth of the company stood at Rs.42.56 crore as on March 31, 2022, compared with Rs. 37.69 crore as on March 31, 2021. The adjusted overall gearing ratio was 1.44x as on March 31, 2022, though the same moderated from with 1.77x as on March 31, 2021, driven by accretion of profit to net worth and scheduled repayment of term debts. Further, total indebtedness as measured by TOL/TNW of the company was 2.73x as on March 31, 2022, compared with 3.23x as on March 31, 2021. The debt protection metrics of the company, however, improved compared year on year due to increase in profits. The interest coverage ratio improved to 2.39x as on March 31, 2022 (1.08x as on March 31, 2021), debt service coverage ratio was 1.27 times in FY22 (0.96 times in FY21) and Total debt/GCA was 6.34 years (30.75 years in FY21).

- **Working capital intensive nature of operations**

Being in auto ancillary industry, the operations of the company are working capital intensive in nature. Despite a moderation in operating cycle to 101 days in FY22 from 129 days in FY21, the same remains elongated, due to high inventory days of 106 days in FY22. Driven by a moderation in operating cycle in FY22, the company's working capital intensity also decreased to 25% in FY22 from 34% in FY21. Going forward, effective working capital management with sustained improvement in operating cycle will be a key rating factor.

- **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 30% of its revenues from countries such as USA, UK, Columbia, Germany, Nepal. These exports expose the company to regulatory risk arising from changes in other countries' procurement policies and forex fluctuation risk. However, the forex exposure is almost fully hedged limiting the forex risk.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of Akar Auto Industries Limited is adequate marked by its expected gross cash accruals as against debt obligations from FY23 to FY25. At the same time, the company's bank limits are utilized to the extent of ~88% on an average for the period ended September 2022 indicating some liquidity cushion.

About the Company

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):

(Rs. crore)

For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Audited)	Q1FY22 (Unaudited)	Q1FY23 (Unaudited)
Total Operating Income	188.06	268.52	56.68	82.60
EBITDA	8.70	19.19	4.20	4.58
PAT	-2.84	6.88	1.17	1.23
Total Debt	74.01	66.45	-	-
Adjusted Tangible Net-worth (including quasi equity)	37.69	42.56	-	-
EBITDA Margin (%)	4.62	7.15	7%	6%
PAT Margin (%)	-1.50	2.55	2%	1%
Overall Gearing Ratio (x)	3.08	2.20	-	-

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

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 2021-22 (March 3, 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loans	Long Term	17.02	IVR BBB- /Stable	IVR BB+/ Stable	-	-
2.	WCDL	Long Term	-	-	IVR BB+/ Stable	-	-
3.	GECL	Long Term	12.51	IVR BBB- /Stable	IVR BB+/ Stable	-	-
4.	Cash Credit	Long Term	20.80	IVR BBB- /Stable	IVR BB+/ Stable	-	-
5.	Packing Credit	Short Term	-	-	IVR A4+	-	-
6.	FDB/FBE/BRD	Short Term	-	-	IVR A4+	-	-
7.	PC/PCFC/FDB /FBE/BRD*	Short Term	25.00	IVR A3	-	-	-
7.	ILC	Short Term	8.00	IVR A3	IVR A4+	-	-
8.	Bank Guarantee**	Short Term	4.50	IVR A3	IVR A4+	-	-
9.	Unallocated Limits	Long/Short Term	-	-	IVR BB+/ Stable/ IVR A4+	-	-

**one way interchangeability from FB limit to Non-fund based limit to the maximum of Rs. 5.00 crore*.

***one way interchangeability from BG to LC*

Name and Contact Details of the Rating Analyst:

Name: Ms. Sapna Bagaria Tel: 033-4803 3621 Email: sapna.bagaria@infomerics.com	Name: Mr. Sandeep Khaitan Tel: 033-4803 3621 Email: sandeep.khaitan@infomerics.com

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	0.41	IVR BBB-/ Stable
Term Loan - 2	-	-	FY26	5.31	IVR BBB-/ Stable
Term Loan - 3	-	-	FY30	11.30	IVR BBB-/ Stable
GECL -1	-	-	FY25	7.16	IVR BBB-/ Stable

GECL - 2	-	-	FY27	5.35	IVR BBB-/ Stable
Cash Credit	-	-	-	20.80	IVR BBB-/ Stable
PC/PCFC/FDB/FBE /BRD*	-	-	-	25.00	IVR A3
Bank Guarantee**	-	-	-	4.50	IVR A3
ILC	-	-	-	8.00	IVR A3

**one way interchangeability from FB limit to Non-fund based limit to the maximum of Rs. 5.00 crore*.

***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/Len-AAIL-nov22.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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