CRISIL Ratings

Rating Rationale

February 02, 2024 | Mumbai

Autotech Industries India Private Limited

Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.54.63 Crore**
Long Term Rating	**CRISIL A+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its **'CRISIL A+/Stable/CRISIL A1+'** ratings on the bank facilities of Autotech Industries India Pvt Ltd (AIIPL).

The ratings continue to reflect the established position of AIIPL in the automotive (auto) components industry, supported by its status as a major supplier of rocker assemblies to its customers, with whom it has been associated for more than two decades. The ratings also factor in the healthy financial risk profile of AIIPL, marked by comfortable debt protection metrics. These strengths are partially offset by exposure to cycles in the US and European markets, concentration risk (as more than 60% of total revenue comes from the top five customers)and fluctuations in raw material prices and foreign exchange (forex) rates.

In fiscal 2023, revenue declined by 3% year-on-year (y-o-y) on account of a 17% drop in exports, amid subdued demand from US and Europe, recessionary trends and the ongoing geopolitical situation. For the first eight months of fiscal 2024, revenue fell by 3%, due to a 5% drop in export revenue. Given the continued sluggishness in overseas markets, revenue is expected to decline by 2-3% in fiscal 2024 (y-o-y).

Operating margin declined by 50 basis points to 20.2% in fiscal 2023, from 20.7% in fiscal 2022. On one hand, share of exports, fetching a higher margin, dropped to 72% from 80% over the same period. On the other hand, manufacturing expenses went up due to a fall in scale of operations. The margin has further declined by 80 bps to 20.2% (first eight months of fiscal 2024), from 21.4% in the corresponding period of the previous fiscal, with a marginal rise in key raw material prices from September 2023 onwards. With increase expected in raw material prices amidst supply chain disruptions and other overhead costs, on account of the Red Sea issue and limited pricing flexibility of AIIPL, the margin is expected to stabilise at 19.5-20% over the medium term.

The rating also factors in the company's strong financial risk profile, marked by adequate networth of Rs 583 crore and low gearing of 0.05 time as on March 31, 2023. Prudent working capital management and nominal capital expenditure (capex) plans, to be entirely funded via internal accrual, should minimise reliance on external debt.

Analytical Approach:

CRISIL Ratings has considered the standalone business and financial risk profiles of AIIPL.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position in the auto components industry:** Autotech has maintained longstanding relationships with reputed customers, such as Cummins Inc (S&P Global Ratings [S&P] A+/Stable/A1), Scania AB (S&P BBB/ A2), Lucas TVS Ltd ('CRISIL AA+/Stable/CRISIL A1+'), Tata Motors Ltd ('CRISIL AA/Stable/CRISIL A1+'), Tata Cummins Ltd and Volvo India Ltd. The company has set up dedicated manufacturing facilities for each client. Large commercial vehicle manufacturers in the US and Europe benefited from the momentum in the commercial vehicle cycle. Benefits from a strong market position and healthy relationships with customers should continue to support the business

- **Strong financial risk profile:** Financial risk profile is marked by a healthy networth, low gearing and strong debt protection metrics. Networth is likely to exceed Rs 640 crore as on March 31, 2024, against a modest debt obligation. The company also had a healthy liquid surplus of around Rs 321 crore as of March 2023. With nominal capex of Rs 15-20 crore, to be undertaken towards routine maintenance annually, and no major capex plans on the anvil, the company is unlikely to raise fresh term debt over the medium term.

Weaknesses:

- **Exposure to revenue concentration risk:** Autotech derives its entire revenue from original equipment manufacturers (OEMs), catering largely to the commercial vehicle segment. The Cummins group and Scania AB alone form 40-45% of sales; however, share of revenue from the Cummins group has reduced over the last few years. Furthermore, the geographically diversified revenue profile (exports accounting for 70-75%, with the balance coming from the domestic market) will lend stability to business, in case of slowdown in any particular market. Risk stemming from revenue concentration will persist over the medium term, though partly mitigated by established client relationships.

- **Susceptibility to fluctuations in raw material prices and forex rates:** As cost of procuring raw material accounts for 40-45% of the cost of sales, even a slight price variation 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 cost and forex rates. However, Autotech has escalation/ pass-through clauses to hedge against fluctuations in forex rates on receivables from the Cummins group and Scania AB; 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 susceptible to steep fluctuations in raw material prices and forex rates.

Liquidity: Strong

Expected_net cash accrual of Rs 80-90 crore should suffice to cover the term debt obligation of Rs 8-10 crore over the medium term. This, along with cash and equivalents of Rs 321 crore as on March 31, 2023, will help cover the incremental working capital and nominal capex requirements.

Outlook: Stable

Autotech will continue to benefit from its established clientele, healthy share of exports in overall revenue and its strong financial risk profile.

Rating Sensitivity factors

Upward factors

- Sustained revenue growth of around 20% and healthy operating margin of 22-23%, leading to strong cash accrual.
- Sustenance of strong financial risk profile and healthy liquid surplus.

Downward factors

- Lower offtake by key customers, leading to fall in revenue and operating margin (below 17%).
- Large debt-funded capex or significant stretch in the working capital cycle, leading to steep moderation in debt metrics.
- Depletion in liquid surplus, through large dividend payout, significant decline or loss in market value of investments, or funding material capex plans.

About the Company

Autotech acquired a partnership firm named Autotech Industries, set up in 1984, by Mr KS Jeyaraman and Mr S Rajarathinam, and registered it under the directorship of promoters in 1997. The company manufactures precision auto components and assemblies. It is the major supplier for most customers, including Cummins Inc, Scania AB, Tata Motors Ltd, Tata Cummins Ltd and Volvo India Ltd etc. 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		2023	2022
Operating income	Rs crore	510	553
Reported profit after tax (PAT)	Rs crore	71	96
PAT margin	%	13.9	17.5
Adjusted debt/adjusted networth	Times	0.05	0.09
Interest coverage	Times	25.8	60.86

For the first eight months of fiscal 2024, the company reported profit after tax of Rs 42 crore on operating income of Rs 327 crore, compared with Rs 43 crore and Rs 337 crore, respectively, in the corresponding period of the previous fiscal.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	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	20	NA	CRISIL A+/Stable

NA	Proposed Long term Bank loan facility	NA	NA	NA	28.05	NA	CRISIL A+/Stable

** Includes Rs 5.58 crore of credit exposure limit as sub-limit*

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	49.05	CRISIL A+/Stable		--	02-01-23	CRISIL A+/Stable		--	26-11-21	CRISIL A+/Stable	CRISIL A1 / CRISIL A/Stable
			--		--		--		--	07-04-21	CRISIL A/Positive	--
			--		--		--		--	25-03-21	CRISIL A/Positive / CRISIL A1	--
Non-Fund Based Facilities	ST	5.58	CRISIL A1+		--	02-01-23	CRISIL A1+		--	26-11-21	CRISIL A1+	CRISIL A1
			--		--		--		--	07-04-21	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+
Proposed Long Term Bank Loan Facility	28.05	Not Applicable	CRISIL A+/Stable
Term Loan	20	State Bank of India	CRISIL A+/Stable

& - Includes Rs 5.58 crore of credit exposure limit as sub-limit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing 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

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