Automobile Corporation of Goa Limited
August 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	10.00	**CARE AA-; Stable (Double A minus; Outlook: Stable)**	**Revised from CARE AA; Stable (Double A; Outlook: Stable)**
Short-term bank facilities	3.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**13.00 (Rs. Thirteen crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of long-term bank facilities of Automobile Corporation of Goa Limited (ACGL) takes into cognizance the continued deterioration in the company's operational performance as reflected by significant decline in total operating income and losses reported by the company attributable to substantial volume decline in buses segment amid subdued industry demand exacerbated by covid-19 pandemic. CARE believes that the uncertainty revolving around reopening of schools, travel restrictions and work from home measures is expected to keep the sales volumes and overall profitability for ACGL, under pressure in near to medium term.

Nevertheless, the ratings continue to factor in the strong association and synergies linked with TATA group (collectively holding 49.77% stake as on June 30, 2021) as well as significant operational, financial and management linkages with Tata Motors Limited (TML: rated CARE AA-; Stable). Further, ratings continue to derive strength from the long and established track record of the company of over three decades in manufacturing of bus body and pressing components and the comfortable capital structure with no long-term debt obligations and strong liquidity position which is adequate to withstand any exigencies created by subdued demand scenario in the medium term.

The rating strengths however, continues to remain constrained on account of the moderate scale of operations, low bargaining power, and inherent cyclicality associated in the industry, which is further amplified with company operating in only two segments within the automobile industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Significant growth in revenue and profitability with PBILDT above 20% on a sustained basis
- Improvement in credit profile of TML

Negative Factors- Factors that could lead to negative rating action/downgrade

- Any weakening of parent's credit profile or weakening of linkages with TML
- Any large debt funded capital expenditure deteriorating its overall gearing ratio over 0.50x
- Significant deterioration in the liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Association with Tata group with strong linkages with TML

ACGL is an associate company of TML, which is one of the leading automotive manufacturers in India having presence across various geographies such as Europe, US, China, Russia and Brazil. The company's manufacturing base in India is spread across Honda and Bhuimpal (Goa), Dharwad (Karnataka) and Jejuri (Maharashtra). By virtue of being associated with Tata group, ACGL draws strength from the experience, management team and resourcefulness of the group. ACGL's Board of Directors (BOD) has strong representation from the Tata group with Mr. O. V. Ajay (CEO/ Executive

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Director, ACGL) representing the Tata Group on the Board of ACGL. Furthermore, ACGL derives approximately 80-90% of its gross sales from group entities with TML contributing to significant portion of the same.

Long track record of operations coupled with experienced management

The company has a long track record of more than three decades in manufacturing and assembly of bus bodies in Goa. ACGL is spearheaded by Mr. Shrinivas Dempo as the Chairman. He is a Post-graduate in commerce from the erstwhile Bombay University and is also serving as a Chairman of Dempo Group of companies and Managing Director of the Dempo Industries Private Limited. The other executive members of the board are Mr. Girish Wagh (BE Mechanical, Post Graduate Diploma in Manufacturing from S P Jain Institute of Management Research, Mumbai), having an experience of more than 2 decades, Mr. Rohit Srivastava and Mr. Aasif Malbari, both having an experience of over 2 decades.

Strong capital structure

The healthy accretion of profits to net-worth over the years coupled with absence of any long-term debt and unutilized bank lines resulted into comfortable capital structure as on June 30, 2021. During FY21, the company has availed an invoice discounting facility of Rs. 30.00 crore (outstanding: Rs. 17.41 crore as on June 30, 2021) at the request of TML, which has created additional liquidity buffer for the company. The said facility is on a recourse basis with the first recourse on TML. With negligible utilization of working capital, the overall gearing remains comfortable at 0.10x as on March 31, 2021.

Key Rating Weaknesses

Moderate scale of operations coupled with significant deterioration in the operational performance

During FY21, TOI registered a significant y-o-y decline of 63% to Rs.125.80 crore in FY21 from Rs.340.26 crore in FY20 on account of decline in revenue from bus body segment to Rs.78 crore in FY21 as against Rs.276 crore in FY20. Revenue from the pressing segment, which caters majorly to the commercial vehicle also declined to Rs. 38 crore in FY21 from Rs.57 crore during FY20 with lower demand from TML and Tata Cummins Private Limited. The revenue profile of the company was impacted due to lower orders in line with the macro economic conditions and challenges pertaining to BS-VI/axle load norms affecting the industry, apart from disruptions caused by pandemic. With decline in volumes and operating income, the company posted operational and net losses as against PBILDT margin and PAT margin of 5.71% and 2.93% respectively in FY20. The company has however adopted various cost rationalization measures which could contain the losses to certain extent in FY21. Such measures are also expected to contract losses in FY22 and support the profitability way ahead. During Q1FY22, ACGL witnessed Q-o-Q decline in total operating income of 17% to Rs. 40.27 crore (Q4FY21: Rs. 48.65 crore) with operating loss of Rs. 3.25 crore (loss in Q4FY21: Rs. 2.09 crore) and net loss of Rs.3.38 crore (Net loss in Q4FY21: Rs. 2.72 crore)

Low bargaining power with customer and high competition

ACGL's revenues are mainly derived from sales of bus bodies to TML, constituting to approximately 85% of the TOI in FY21. The high contribution from a single customer restricts the bargaining power of ACGL. Further, as there exist several large players in the bus building segment, there is high competition impacting the overall market share. With TML contributing to a significant portion of ACGL's sales, the fortunes of ACGL is largely dependent on the ability of TML to successfully procure orders in the segment and exposes ACGL to any weakening in business profile of TML, which is a key rating monitorable.

Cyclicality in the automobile industry

The auto sector is cyclical as its performance is largely dependent on the growth of the Indian economy. But the degree of cyclicality within various segments tends to vary. The bus business in India is highly cyclical. Coupled with this the entry of many global manufacturers has altered the market equation making it a highly challenging business.

Industry Outlook

The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of many players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to tier II and III suppliers. The automobile industry has shown a quick recovery starting from the middle of FY21. Tractors sales were unaffected through the year and in fact, FY21 was one of the best years for this segment. The domestic wholesale dispatches of passenger vehicle reached nearly same levels as last year (FY20), while two-wheelers managed to clock around 85% sales of last year. The commercial vehicles segment, which was the first to be affected by lockdowns saw Q1-FY21 as a complete washout by witnessing just 30,000 units of domestic sales. However, as the economy opened up, their sales grew and in the last quarter it clocked 2.1 lakh units of sales, the highest since Q4-FY19. On a cumulative basis, commercial vehicles segment reached ~80% of last year’s volumes. The three-wheelers segment did not see much green shoots due to the minimal demand from the passenger carrier and goods carrier segments. During Q1-FY22, cumulative sales for all segments was lower than previous quarter, but higher by a large margin than Q1-FY21.

Liquidity: Strong

Liquidity is marked by strong accruals over the years and liquid investments as against no long-term debt repayment obligation. Furthermore, the company has extended callable ICDs to TML to the tune of Rs.95 crore as on June 30, 2021. The company also has a liquidity buffer consisting of unencumbered cash and bank balance, liquid investments to the tune of Rs.11.62 crore as on June 30, 2021. Further, the company has unutilized bank lines of approximately Rs.10 crore. With comfortable gearing levels and negligible utilization of bank lines, it has sufficient gearing headroom, to meet any incremental working capital or capex needs over the medium term. However, the company does not envisage any major cap-ex requirements in near term. Further, with the invoice discounting facility availed at the request of TML, the company’s liquidity position remains further strengthened.

Analytical approach: Standalone after factoring in association with Tata group and strong operational, financial and management linkages with TML.

Applicable Criteria

Criteria on assigning Outlook & Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology : Manufacturing Companies
Rating Methodology : Auto Ancillary Companies
Rating Methodology: Factoring Linkages Parent Sub JV group
Liquidity Analysis of Non-Financial Sector Entities

About the Company

ACGL *(CIN: L35911GA1980PLC000400; listed on BSE, with market capitalization of Rs.267.84 crore as on July 27, 2021*) was incorporated in September 1980 and jointly promoted by TML *(holds 48.98% stake as on June 30, 2021,* EDC Limited *(holds 6.66% stake; formerly known as Economic Development Corporation of Goa, Daman and Diu as on June 30, 2021)* and Tata Motors Finance Limited a subsidiary of TML (Formerly known as Sheba Properties Limited, holds 0.79% stake as on June 30, 2021.

The company is engaged in the manufacturing and assembling of bus coaches and also manufactures sheet metal components for commercial vehicles. ACGL has its manufacturing facilities located at Honda & Bhuimpal (in Goa with two facilities in Bhuimpal), Jejuri (Maharashtra) and Dharwad (Karnataka).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22 (A)
Total operating income	340.26	125.80	40.27
PBILDT	19.42	-11.41	-3.25
PAT	9.96	-12.51	-3.38
Overall gearing (times)	0.00	0.10	[redacted]
Interest coverage (times)	104.82	Negative	Negative

A: Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: NA
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	3.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA-; Stable	-	1)CARE AA; Stable (08-Jan-21)	1)CARE AA; Stable (22-Jan-20)	1)CARE AA; Stable (28-Mar-19)
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (08-Jan-21)	1)CARE A1+ (22-Jan-20)	1)CARE A1+ (28-Mar-19)

Annexure-3: Detailed explanation of covenants of the rated facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Margins of Fund based limits	Margin of 25% on all inventory and book debts
II Unsecured loans from promotes/group entities	All existing unsecured loans to be subordinated and the same would not be withdrawn without the banks consent
B. Non-financial covenants	
I Submission of Annual and Quarterly financial statements	Two copies of audited balance sheet to be submitted not later than 180 days from the close of a financial year
II Submission of stock and debtors statement	Quarterly financial statements to be submitted 60 days from the date end of the quarter Annual financial statements - Provisional results within 90 days of financial year end - Audited results within 180 days of financial year end
III Change in ownership/shareholding	Any change in shareholding will be with prior written consent from the banker

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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