Air International TTR Thermal Systems Private Limited

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**5.00 (Rs. Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bank facilities of Air International TTR Thermal Systems Private Limited (AITPL) continues to be tempered by its weak financial risk profile on account of growing albeit modest scale of operations, below average profit margins leading to thin cash accruals and weak debt coverage indicators; albeit improved in 9MFY22. Furthermore, the ratings also factor in the moderately weak liquidity position, client concentration risk, albeit lower counterparty credit risks owing to well established and reputed clientele base, competition from larger players in auto-electronic component manufacturing segment and exposure to cyclicality in automotive industry.
The rating however derives strength from the vast experience of the joint venture partners in the automobile industry, comfortable capital structure, established client profile and strategic location of the plant.

Key Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income close to around Rs. 175 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin being around 8.00% and 3.50% respectively on a sustained basis
- Improvement in total debt to GCA to improve and stood below 4x on a sustained basis.
- Improvement in interest coverage ratio to remain above 2x on a sustained basis

Negative Factors

- Significant elongation in working capital cycle resulting into high working capital utilization.
- Overall gearing ratio to deteriorate above 1.00x.
- Significant underachievement of revenues and cash accruals as compared to envisaged levels

Detailed description of Key rating drivers

Key rating Weakness

Customer concentration risk albeit established player in the market

AITPL is engaged in the design and assembling of heating, ventilation and air-conditioning (HVAC) units and supplies them to OEM's of passenger, commercial and off- highway vehicles. AITPL was incorporated in 2014 and in the initial few years, it was engaged in developing prototypes of HVAC units for its potential clients. It signed its first contract in January 2019 with Tata Motors Limited (TML) for the supply of complete HVAC unit for its Harrier model. Prior to this, AITPL was selling tools and blower units to TML for its various commercial and passenger vehicles. AITPL is a preferred supplier of TML for HVAC and as such is likely supply to its various upcoming launches as well. Currently, apart from Harrier model it is also supplying to TATA Altroz, new TATA Safari model as well. It also supplies HVAC systems to the ISUZU for the off-road vehicles.
The revenue stream of AITPL is concentrated with most of the sales to TML. Going forward, there is likely to be some diversification in its client profile however, TML shall continue to account for a majority share of its revenue. Although TML is a well-established player enjoying a strong position in the industry, the high dependence on it for revenue exposes AITPL to the fluctuation in its sales.

Moderate scale of operations coupled with below average profit margins leading to thin cash accruals

Total operating Income of the company though grew significantly by 68.22% in FY21; yet the same stood at moderate levels at Rs. 69.56 crore in FY21 vis-à-vis Rs. 41.35 crore in FY20. The sales also comprised revenue from tool sales as well as services income. Around 90% of the total revenue is through sale of parts (tools) viz. HVAC parts, blowers, etc. majorly to TATA Motors and 10% is through engineering sales (majorly to AIR Slovakia). However, the total operating income further grew to Rs. 106.33 crore in 9MFY22. Slowdown in the automotive industry in FY21 backed by onset of COVID-19 pandemic and subsequent lockdown announced nationwide has adversely impacted off take for AITPL.
Further, the company was into prototyping of TATA Harrier vehicle, wherein the expenses and cost overheads were high with less margin leading to thin PBILDT margins of 0.78% in FY21 vis-à-vis 0.39% in FY20. The company reported net loss of Rs. 2.67 crore in FY21 vis-à-vis net loss of Rs. 2.04 crore in FY20 owing to higher depreciation cost and interest cost. The company

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

generated thin cash accruals of Rs.0.94 crore in FY21. Profitability margins so far have been fluctuating on account of variations in sales mix with relatively higher margins in service income from designing and engineering and tool sales.
Thus, the above had an adverse bearing on the PBILDT margins of AITPL in FY21. Lower than anticipated production for TML, lower concentration of sales from higher margin yield products i.e. tooling/services income impacted the profitability. The operating income grew by 35.62% in 9MFY22 as compared to 9MFY21 on account of improved demand for passenger vehicles post relaxation of lockdown. Furthermore, the company has geared up and has achieved net profit in 9MFY22 amounting to Rs. 1.95 crore vis-à-vis net loss of Rs. 2.55 crore reported in 9MFY21. This has led to improvement in cash accruals; however sustainability of the same remains to be seen.

Cyclicality associated with the auto industry
The demand and performance for the auto industry is susceptible to changes in the economic climate. A fall in the level of economic activity can dissuade the customers, thereby impacting the sales of the automotive industry as the automobile manufacturers may limit the production levels.

Key Rating Strengths
Strong parentage of Air International Thermal China and Tata Toyo Radiator provides the company with requisite technical and managerial expertise
AITPL is a 50:50 joint venture between Air International Thermal (China) Pty Ltd. and Tata Autocomp Systems Limited. AIT is a leading global manufacturer of climate control systems and supplies to OEM's across the world through manufacturing locations in seven counties viz. North America, China, Mexico, UK Thailand, Germany and Slovakia. Tata Toyo Radiator Limited pioneered the production of aluminium radiators in India and currently manufactures a range of heat exchangers and engine cooling systems. AITPL leverages the best of Air International Thermal's product development and design expertise with Tata Toyo's managerial expertise. Air International Thermal China provides assistance in terms of design expertise and requisite training to the employees of AITPL from time to time. The engineering and designing team of AITPL has been trained at AIT's global R&D centers in China and USA. AITPL's strong designing and engineering team provides it the necessary competitive advantage over the other players in the industry.

Presence in one of India's premier auto hubs
The manufacturing facility of AITPL is located in close proximity to the manufacturing facilities of its largest customer Tata Motors Limited in Pune. Pune being an auto hub gives opportunity to AITPL to cater to other automobile OEMs which are located in the same belt.

Comfortable capital structure albeit moderately weak debt coverage indicators
The capital structure marked by overall gearing ratio remained comfortable at 0.91x as on March 31, 2021 vis-à-vis 1.26x as on March 31, 2020. The same is comfortable owing to moderate net worth base as against debt portion on its books. The reduction in debt level along with increase in net worth base backed by accretion of profits to reserves has led to further improvement in gearing ratio to 0.46x as on December 31, 2021.
The debt coverage indicators marked by interest coverage ratio and total debt to GCA remained moderately weak in FY21 due to higher interest cost and lower operating profitability. However, in 9MFY22, the interest coverage ratio has shown significant improvement from 0.53x in FY21 to 13.91x in 9MFY22 owing to better operating profit reported along with savings in interest expense. Given the lower debt level on its books along with GCA of Rs. 6.50 crore in 9MFY22, the total debt to GCA stood at 0.34x as on December 31, 2021.

Improvement in debtor and creditor days coupled with moderate utilization of working capital limits
AITPL receives payment from TML within 30 days and for the other services extended to AIT, payments are realized within 90 days. When, AITPL develops a tool for its client, the process involves a series of verifications and approvals and hence payments get realized after the processes are complete. Further, AITPL is only engaged in assembly and designing of the HVAC systems and outsources manufacturing to other vendors. Typically, payments to vendors are made within 90 days but in case of tooling, payments are made to the vendors after AITPL receives approval from its clients. Hence, creditors appear to be on higher side. However, the receivables have halved in FY21 (from Rs. 16.97 crore in FY21 to Rs. 8.22 crore in FY20) owing to faster recovery of the same and fast-tracked payments from its customers, thus leading to improvement in collection days from 131 days in FY20 to 65 days in FY21. The utilization of working capital limits stood nil thereby providing liquidity cushion to the company

Liquidity: Adequate
AITTRTSPL has modest liquidity which is characterized by sufficient cushion in accruals in 9MFY22 vis-à-vis repayment obligations. The company has cash and bank balance of Rs.9.06 crore as on Dec 31 2021 and as on Feb 16, 2022, the cash and bank balance is Rs.0.93 crore lying as credit in the CC account having limit of Rs.5.00 crore which is not utilized. During FY21, the company has paid off the liabilities/debt from debtor realization and funds available from higher creditors. The operating cycle in FY21 is negative. For FY22, repayment is around Rs1.54 crore of which the company has already paid Rs.1.10 crore..
Net cash flow from operating activities stood positive at Rs. 12.27 crore in FY21 vis-à-vis positive cash flow from operations at Rs. 4.00 crore in FY20.

Analytical approach: Standalone

Applicable criteria:
[CARE's Policy on Default Recognition]
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[Rating Methodology – Manufacturing Companies]
[Liquidity Analysis of Non-Financial Sector entities]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Auto Ancillary Companies]

About the Company
Air International TTR Thermal Systems Private Limited (AITPL) was established in the year 2014 as a 50:50 JV between Air International Thermal China Pty Ltd, and Tata Toyo Radiator Limited. Presently, as informed by the management, the shareholding of Tata Toyo Radiator has been replaced by Tata Autocomp Systems Limited with 50% of shareholding remaining unchanged. AITPL is based out of Pune and is engaged in Designing and assembling of heating ventilation and air conditioning units for passenger vehicles, commercial vehicles and off- highway vehicles.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	41.35	69.56	106.33
PBILDT	0.16	0.54	7.79
PAT	-2.04	-2.67	1.95
Overall gearing (times)	0.57	0.26	0.17
Interest coverage (times)	0.48	0.53	13.91

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	5.00	CARE BB+; Stable

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-Working Capital Limits	LT	5.00	CARE BB+; Stable	-	1)CARE BB+; Stable (17-Mar-21) 2)CARE BB+; Stable (03-Apr-20)	1)CARE BB+; Stable (02-Apr-19)	-

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Penal interest rate	Penal interest for non compliance – 18.75% p.a. or 2% above present applicable rate whichever is higher. Penal interest for irregularity/overdue – 18.75% p.a. or 2% above present applicable rate whichever is higher
B. Non-financial covenants	
1. Stock Audit	The copy of Annual Stock Audit Report should be made available to the bank (in case of consortium/multiple banking)

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Limits	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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