Amtek Auto Limited

May 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term / Short-term Bank Facilities	50.00	**CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	Assigned
Total Bank facilities	**50.00 (Rs. Fifty crore only)**		
Non-convertible debenture	150.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Assigned
Total Long-Term Instruments	**150.00 (Rs. One hundred fifty crore only)**		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instrument of Amtek Auto Limited (AAL) derive strength from the resourceful investor with substantial financial support, experienced management and its reputed clientele. The ratings also factor in expectation of an improvement in operational performance of AAL with expectation of the company gradually regaining a part of lost market share, on the back of sound management team put in place and promoter's financial support for required capex and working capital requirements. The rating strengths are, however, tempered by limited track record post recent change in management, high customer concentration, expectations of net losses in medium term due to higher capital charge and the company's exposure to cyclical automobile industry.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Sustainable turnaround in operations with company turning positive at net level
- Improvement in capital structure and liquidity position to reduce reliance on support from promoters

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Slower than expected turnaround in operational performance
- Lower than envisaged financial support from promoters

Detailed description of the key rating drivers

Key Rating Strengths

Resourceful investor with substantial financial support: AAL has been acquired by Deccan Value Investors (DVI) under the Insolvency proceedings. Promoted by Mr Vinit Bodas in November 2004, DVI is USA based hedge fund which manages funds aggregating USD 3 billion across the USA, France, Italy, India and Vietnam. DVI USA has infused upfront funds of Rs.500 crore for 90% stake in AAL while it has also subscribed for Rs.400 crore of NCDs. DVI has plans to infuse long term funds of Rs.150 crore in AAL for capital expenditure and working capital requirements though proposed NCDs.

Experienced management: AAL is led by Mr Romesh Kaul, MD of the company. He has a vast experience of 39 years in capital goods and automotive industries and has worked with Mahindra & Mahindra and Whirlpool India. Further, the other members of board of AAL comprises of eminent industry experts and professionals. CARE believes that the sound management team put in place after the change in control is expected to help the company regain some of the lost market share and ramp up the operations.

Reputed clientele albeit customer concentration: AAL has established long-standing relationship with its clients over the year however, the same has been impacted to some extent as AAL entered Corporate Insolvency Resolution Process (CIRP). With declining exports, sales from top 10 customers have increased to around 80% in FY21 from 56% in FY20. Further, sales volume from key customers has also declined in the past three years. Going forward, the company's ability to regain business and grow sales volumes from key customers would remain key monitorable.

Expectation of gradual improvement in operational performance: Due to declining trend of sales post induction of AAL under CIRP, PBILDT margin of the company also witnessed decline which remained -3.72% in FY21. However, TOI of the company is expected to grow during FY22-FY24 backed by expectations of AAL gaining back lost market share with OEMs. With growth in TOI, PBILDT margin is expected to improve progressively to 7% in FY24.

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

Key Rating Weaknesses

Limited track record post recent change in management: As DVI took over AAL in December 2021, there is short track record post change in promoters. Hence, ability of new management to turnaround operational performance of the company on a sustained basis remains to be seen.

Expectations of net losses in medium term: With de-growth in sales, declining profitability margin, impairment / diminution in the carrying value of all of its assets post CIRP, net worth of the company got eroded significantly. Post implementation of resolution plan, net worth base of the company stood at Rs.549 crore as on December 08, 2021 as against negative net worth base of Rs.10,989 crore as on March 31, 2021. AAL has moderate leverage with overall gearing of 1.28x as on December 08, 2021. With expected loss during FY22-FY24 due to higher depreciation charge, net worth base is expected to decline and consequently, gearing is expected to increase. However, majority of debt pertains to NCDs issued to promoters with longer maturity profile which lends some comfort.
Debt coverage indicators marked by PBILDT interest coverage is expected to remain moderate over 4x during projected period. Moreover, Total debt/PBILDT which is presently very high due to high debt level and lower operating profitability, is expected to improve going forwards.

Exposure to cyclicality in demand in automobile industry: Automotive industry is subjected to cyclical variations in performance and is very sensitive to various policy changes. AAL's performance remains closely aligned to the performance of key customers and in-turn exposed to cyclical demand patterns inherent to the automobile industry and ability of the OEMs to sustain their operating performance. Following the economic fallout led by the Covid-19 pandemic, domestic as well as global auto sales were impacted. Moreover, recent supply chain constraints such as the semiconductor shortage have again resulted in temporary hiccups. Further, AAL's PBITDA margin is susceptible to increasing raw material prices as well as higher logistics cost part of which can be passed with a lag of one-to-two quarters.

Industry growth prospects

Domestic automobile sales volume in FY22 witnessed 6% de-growth over FY21 mainly due to ~11% decline in two-wheeler sales. However, PV and CV segment grew by ~13% and ~26% respectively during same period. In near term, domestic automobile sales are expected to be impacted by the increased cost of ownership, driven by higher commodity prices (both raw material prices as well as oil prices) and increase in insurance costs, and global semi-conductor shortage, driven by supply chain issues & geopolitical tensions. This will be partially offset by the easing of the pandemic led restrictions, normal monsoons forecast and new launches by the OEMs.

Liquidity: Adequate

The liquidity of AAL remains adequate as company is expected to generate sufficient cash for interest servicing post restructuring. Moreover, the company doesn't have any term debt repayment obligations and NCDs have tenor of 7 years which provides cushion till the time sufficient cash accruals are built. Further, liquidity of the company is supported by need based support from DVI. Further, routine and modernization capex would be funded by proposed NCDs.

Analytical Approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Auto Ancillary Companies
Manufacturing Companies
CARE's Policy on Curing period

About the company

AAL is engaged in manufacturing of various automotive machined and forged components range from engine, transmission, driveline to chassis. The company caters to OEMs in diverse segments including passenger vehicles, commercial vehicles, tractors, two-wheelers and three-wheelers. The company has 14 manufacturing plants located across 5 states in India. It went into CIRP vide order dated July 24, 2017 passed by the Hon'ble National Company Law Tribunal (NCLT), Chandigarh Bench. The CIRP culminated into the approval of resolution plan submitted by DVI USA by the NCLT vide Order dated July 09, 2020. Subsequently, the resolution plan was implemented on December 8, 2021.

(Rs. Crore)

Brief Financials	FY20 (A)	FY21 (A)	9MFY22 (UA) @
Total operating income	744.73	438.76	323.94
PBILDT	-2.32	-16.31	4.58 #
PAT	-1,082.09	-484.12	1773.05
Overall Gearing (times)	NM	NM	NA
PBIDLT Interest coverage (times)	-ve	-ve	1.07

A: Audited; UA: Un Audited; NA: Not available; NM: Not meaningful
adjusted PBILDT calculation (reconciliation by reducing expenses pertain to business resolution)
@ Refers to period from April 01 2021 to December 08, 2021

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history (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: Please refer 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/ ST-Bill Discounting/ Bills Purchasing		-	-	-	50.00	CARE BBB-; Stable / CARE A3
Debentures-Non Convertible Debentures		-	-	-	150.00	CARE BBB-; 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	LT/ ST	50.00	CARE BBB-; Stable / CARE A3				
2	Debentures-Non Convertible Debentures	LT	150.00	CARE BBB-; Stable				

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

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
Ii	
B. Non financial covenants	NA
I	
Ii	

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	Simple
2.	Debentures-Non Convertible Debentures	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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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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