Automobile Corporation of Goa Limited

August 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	3.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**13.00 (₹ Thirteen crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings of Automobile Corporation of Goa Limited (ACGL) factors in the recovery of operational performance, in FY22 and Q1FY23 as against weak performance in FY21, this was driven by improved demand with normalcy in the economy and recovery in mass transportation, which has resulted in an increased demand for buses. The ratings continue to factor in the substantial operational, management, and financial linkages with Tata Motors Ltd (TML; rated CARE AA-; Stable/CARE A1+), which holds a 48.98% stake in ACGL as on June 30, 2022. The ratings continue to factor in the strong market position, being one of the major suppliers to TML, and the healthy business risk profile with strong Q1FY23 performance, which are expected to continue through FY23.

Furthermore, the ratings continue to be supported by the company's extensive and well-established track record of over three decades in the production of bus body and pressing components, a comfortable capital structure, a diversified supplier base, and an improving business risk profile as compared to the muted profile in the prior year because of the COVID-19 pandemic. However, the ratings are constrained due to the company's exposure to rising commodity prices, limited negotiating leverage, and the cyclicality in the commercial vehicles industry.

Rating sensitivities

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

- Significant growth in the revenue and profitability, with profit before interest, lease rentals, depreciation and taxation (PBILDT) above 20% on a sustained basis.
- Improvement in the credit profile of TML.

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

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

Detailed description of the key rating drivers

Key rating strengths

Strong operational, management, and strategic linkages with TML: ACGL enjoys strong operational linkages with ACGL, being one of the leading suppliers to TML for bus body contributing around 30-35% of TML's bus segment requirements. Furthermore, being part of the Tata group, the group continues to extend managerial support with strong board representation in ACGL and benefits from the expertise, management team, and ingenuity of the larger organisation. The Tata group is strongly represented on the board of directors (BOD) of ACGL by OV Ajay, who serves as the company's CEO and Executive Director. Furthermore, ACGL derives 80-90% of its total revenue from TML alone. Given the strategic importance, TML continues to be one of the major shareholders in ACGL, holding a stake of 48.97% as on June 30, 2022.

Long track record of operations, coupled with experienced management: The firm has been manufacturing and assembling bus bodies in Goa for more than three decades. Shrinivas Dempo serves as the Chairman of ACGL. He received his post-graduate degree in business from the former Bombay University and currently holds the positions of Chairman of the

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

Dempo Group of Companies and Managing Director of Dempo Industries Private Limited. The other executive board members are Girish Wagh (BE Mechanical, Post-Graduate Diploma in Manufacturing from SP Jain Institute of Management Research, Mumbai), who has more than 20 years of experience; Rohit Srivastava, who has more than 20 years of experience; and Aasif Malbari, who has more than 20 years of experience.

Business risk profile improved, driven by an increase in the total operating income (TOI) and profitability: ACGL's revenues are majorly derived from the sales of bus bodies to TML, thus exposing the company to the business performance of TML's commercial vehicle (CV) segment. The demand for buses was adversely impacted during FY21 and spilt over in H1FY22 due to the COVID-19 impact. However, H2FY22 witnessed a revival in bus demand, with normalcy in the economy and the opening of workspace and education institutes, resulting in increased mobility. During FY22, ACGL recorded a TOI growth of 144%, with the bus body category revenue increasing by 181%. The economy opening up and the easing of COVID lockdowns are the key drivers of this growth. Around 77% of the total income came from the bus body segment, which sold 1,952 units throughout the year, 1,648 of which were exported. In Q1FY23, the company manufactured 1,781 units, utilising around 70% capacity.

Strong capital structure: In the absence of any long-term debt and given the moderate utilisation of working capital limits, the company has a comfortable capital structure in FY22. It avails the sales discounting facility from Tata Capital Finance Limited at the request of TML, who had asked its vendors to avail of the facility to ensure immediate payment of dues to maintain liquidity. The increase in working capital with a revival in sales resulted in an overall gearing ratio of 0.25x (PY: 0.10x) as on March 31, 2022. Despite the increase in debt levels, the capital structure remains comfortable as on March 31, 2022, with interest coverage of 75.06x.

Diversified supplier base: The company procures raw materials, including rubber components, seats, steel and aluminium, fibreglass, reinforced plastics, paint, and plywood from the domestic market. The company has a well-diversified supplier base. The top 10 suppliers constituted 46% of the raw material requirements of the company during FY22. Furthermore, the diversified supplier base is also evident from the fact that no single supplier constituted more than 15% of the raw material requirement during FY22. Thus, the diversified supplier base ensures reducing the risk associated with being dependent on any particular supplier and on better price negotiations.

Key rating weaknesses

Exposure to commodity price risk: Buses are constructed using a range of structural materials, including plywood, rubber, fibreglass, aluminium, iron, and steel, which are all utilised in the automobile industry. Steel is a crucial component in bus body manufacturing, which witnessed a sharp hike in prices from ₹58,581 per tonne in FY21 to ₹84,962 per tonne in FY22. ACGL negotiates prices with TML in case of adverse movement in the raw material prices on a quarterly basis.

Low bargaining power with customers and high competition: ACGL's revenues are mainly derived from sales of bus bodies to TML, constituting approximately 72% of the TOI in FY22. The high contribution from a single customer restricts the bargaining power of ACGL. Furthermore, 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 are largely dependent on the ability of TML to successfully procure orders in the segment and expose ACGL to any weakening in the 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. This coupled with the entry of many global manufacturers has altered the market equation, making it a highly challenging business.

Liquidity: Strong

The liquidity has remained robust, driven by liquid investments as against no long-term debt repayment obligations. Furthermore, the company has extended callable inter-composite deposits (ICDs) to TML to the tune of ₹74 crore as on June 2022. The company also has a liquidity buffer consisting of unencumbered cash and bank balances and secured liquid investments. With comfortable gearing levels and low utilisation 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 capex requirements in the near term. Furthermore, with the invoice discounting facility availed at the request of TML, the company's liquidity position remains further strengthened.

Analytical approach
Standalone, capturing the operational and managerial linkages with TML.

Applicable criteria
Policy on Default Recognition
Consolidation
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Manufacturing companies
Rating Methodology – Auto Ancillary Companies

About the company
ACGL (CIN: L35911GA1980PLC000400) is jointly promoted by TML, EDC Limited (formerly known as Economic Development Corporation of Goa, Daman and Diu), and Tata Motor Finance Limited (TMFL; a subsidiary of TML) (rated CARE AA-; Stable and A1+). TML holds around a 48.98% direct stake and a 0.79% stake through TMFL, while EDC Limited holds a 6.66% stake in ACGL as on June 30, 2022. The company is into the manufacturing and assembling of bus coaches and manufactures sheet metal components for commercial vehicles (oil pans, gear covers, emergency doors, door panels, etc). ACGL has five manufacturing facilities at four locations – Honda and Bhuimpal, Goa (with two facilities in Bhuimpal); Jejuri, Maharashtra; and Dharwad, Karnataka. ACGL has a bus building capacity of 10,000 buses per annum as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
TOI	115.70	281.78	143.20
PBILDT	-21.51	7.06	11.71
PAT	-12.51	3.44	8.28
Overall gearing (times)	0.10	0.25	NA
Interest coverage (times)	-192.54	75.06	NA

A: Audited; NA; Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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 (₹ 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 for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Cash credit	LT	10.00	CARE AA-; Stable	-	1)CARE AA-; Stable (August 02, 2021)	1)CARE AA; Stable (January 08, 2021)	1)CARE AA; Stable (January 22, 2020)
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (August 02, 2021)	1)CARE A1+ (January 08, 2021)	1)CARE A1+ (January 22, 2020)

*Long term/short term.

Annexure-3: Complexity level of the various instruments rated for this company

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

Annexure-4: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Arti Roy
Phone: +91-98192 61115
E-mail: arti.roy@careedge.in

Relationship contact
Name: Aakash Jain
Phone: +91-20-4000 9090
E-mail: aakash.jain@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in