Automobile Corporation of Goa Limited

January 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	10.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
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 reaffirmation of the long and short term ratings to the bank facilities of Automobile Corporation of Goa Limited (ACGL) continues to take into account the strong parentage and synergies associated with being a part of the Tata group *(collectively holding 49.77% stake as on September 30, 2020)*, with significant operational and management linkages with various group entities, mainly Tata Motors Limited *(TML: rated CARE AA-; Negative/A1+ as of August 12, 2020)*.

The ratings continue to derive strength from its strong liquidity position with surplus accruals placed in the form of inter-corporate deposits (ICD's) extended to TML. The company has a liquidity buffer consisting of unencumbered cash and bank balance, liquid investments, ICD's extended and unutilized bank lines to the tune of Rs.115.65 crore as on September 30, 2020, which is adequate to weather the subdued demand scenario in the near term. Furthermore, the rating continues to factor in the long and established track record of the company of over three decades in manufacturing of bus components and the comfortable capital structure.

The ratings further take a note of the decline in total operating income and profitability during FY20 *(Audited, refers to a period from April 1 to March 31)* coupled with losses registered by the company during H1FY21 *(Audited, refers to April 1 to September 30).* The same was mainly due to the lower volumes owing to the prolonged slowdown in the passenger commercial vehicle (CV) segment, which is further exacerbated by the COVID-19 pandemic. However, various cost rationalization measures in place is expected to deliver cost savings and contain the losses to an extent. Demand revival in the passenger CV segment is expected only post reopening of schools, lifting of travel restrictions and work from home measures.

The rating strengths however, continued to remain constrained on account of the moderate scale of operations, client concentration risk leading to a relatively low bargaining power with its key customers, and inherent cyclicality associated in the industry, which is further amplified with the company operating in a single segment within the automobile industry.

Rating Sensitivities

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

- Sustained growth in revenue and profitability with PBILDT margin above 12%
- Increased capacity utilization and cost optimization leading to better absorption of fixed costs
- Diversification of product and customer profile

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

- Any further weakening of parent's credit profile or weakening of linkages with TML
- Any un-envisaged incremental debt funded capital expenditure deteriorating its overall gearing ratio over 0.50x on a sustained basis
- More than envisaged losses deteriorating in the liquidity position
- Any stretch in the receivables position or incremental exposure towards TML in the form of ICD's extended

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage along with operational and management linkages with TML

ACGL is a part of the Tata group company and 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 Jamshedpur (Jharkhand), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat), Pune (Maharashtra) and Dharwad (Karnataka). By virtue of being part of the Tata Group, ACGL draws strength from the experience, management team and resourcefulness of the group. ACGL's Board of Directors

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

(BOD) has strong representation from the Tata group with Mr. O. V. Ajay (CEO/ Executive Director) representing the Tata Group on the board. 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. Mr. Dempo is a Post-graduate in commerce from the erstwhile Bombay University. Mr. Dempo also serves as a Chairman of Dempo Group of companies and as the Managing Director of the Dempo Industries Private Limited. Further, Mr. Dempo also holds directorship in various other listed and Private Limited companies like Goa Carbon Limited, Hindustan Foods Limited, V S Dempo Holdings, Private Limited, Amigo Sports Private Limited etc. 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 and debt coverage indicators

The healthy accretion of profits to its net-worth over the years coupled with an absence of any long term debt and unutilized bank lines as on March 31, 2020, resulted in an above average capital structure. However, the company has availed an invoice discounting facility at the request of TML, which has further created liquidity, during H1FY21. The said facility is on a recourse bases with the first recourse on TML. The overall gearing moderated and stood at 0.24x as on September 30, 2020, however remains strong.

With lower profitability and cash accruals during FY20, the debt coverage indicators though moderated, remained strong with PBILDT interest coverage ratio of 104.82x (P.Y.: 281.15x) and total debt to TDGCA of 0.04x during FY20 (P.Y.: Nil; in the absence of debt obligation).

The ability of the company to maintaining its capital structure is the key rating monitorable.

Key Rating Weaknesses

Moderate scale of operations coupled with decline in TOI and profitability

The total operating income (TOI) of the company registered a y-o-y decline in FY20 to Rs.340.26 crore (PY: Rs.435.36 crore) and declined to Rs.38.98 crore H1FY21 (PY: Rs.209.44 crore) on account of decline in revenues from the bus body segment due to lower orders in line with the macro economic conditions and challenges pertaining to BS-VI/axle load norms affecting the industry. Further, the Covid-19 outbreak and subsequent lockdown also hit the production and sales from March 2020 onwards. TOI and profitability is expected to further moderate during FY21, in line with the industry and macro-economic conditions due to the lockdown and impact of Covid-19 on the passenger vehicle segment, especially buses. With decline in volumes and operating levers, the PBILDT margin moderated and stood at 5.71% during FY20 (PY: 9.31%) whereas the PAT margin moderated and stood at 2.93% (PY: 4.79%). Furthermore, the company registered operating and net loss in H1FY21. However, the company is optimising its costs to lower overhead expenses with proper planning of operations and manpower rationalisation. The same is expected to deliver cost savings and contain the losses to an extent.

Any delayed recovery in sales volume aggravating net losses beyond expectations will remain the key rating sensitivity.

Customer concentration risk with low bargaining power with customers

ACGL's revenues are mainly derived from sales of bus bodies to TML, constituting to approximately 89% of the TOI in FY20. 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 leading to pricing pressure which is evident from the constant low average sales realization of the bus over the last couple of years. As a result, pricing is the key for the TML to garner customers. 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 in the segment and exposes ACGL to any sustained weakening of sales and profitability 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 COVID-19 pandemic has led to a further contraction in demand, casting a long shadow over the Indian automobile industry for FY21. As macroeconomic numbers continue to disappoint, reaching pre-Covid level is unlikely in FY21, even as growth trajectory for different segments will be varying. While volume pickup is expected from H2FY21, meaningful demand recovery is expected only in FY22. Commercial vehicle is expected to see a slower recovery hit by muted infra activity. On the other hand, policy announcement on vehicle scrappage and strong government push towards infra projects would hasten the demand revival in CV.

Due to an improvement in mining and infrastructural activities along with a pickup in the demand from the E-commerce sector, commercial vehicles saw a V-shaped recovery as the domestic sales in Q2-FY21 more than quadrupled sequentially.

Within the MHCV segment, sales of trucks were better than buses as demand from office, school and tourism segments remained soft. Tractors continue to be the best performing segment with domestic sales exceeding previous year levels by a high margin in 6M-FY21, except April 2020

The pick-up in CV segment is directly proportional to the economy and the CARE Ratings GDP expectation of -8.1 to -8.2% for FY21 indicates that a complete recovery in CVs, (especially MHCV) domestic sales is unlikely this year. This comes against the backdrop of 28.8% decline in FY20 due to a high base of FY19.

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.98 crore as on September 30, 2020. The company also has a liquidity buffer consisting of unencumbered cash and bank balance, liquid investments to the tune of Rs.8.65 crore as on September 30, 2020. Further, the company has unutilized bank lines of approximately Rs.9 crore. With above average gearing levels and negligible utilisation of bank lines, the issuer has sufficient gearing headroom, to meet any incremental working capital needs over the next one year. Moreover, the company does not envisage any major cap-ex requirements expected during the period FY20-22. Further, with the invoice discounting facility availed at the request of TML, the company's liquidity position remains resilient. *Timely receiving the ICD's from TML, whenever required, is key rating sensitivity.*

Analytical approach: Standalone

The company has significant operational and management linkages with TML, which are integral and strategically important to its operations. However, a standalone approach is considered since ACGL is a listed entity with ~44% of public shareholding as on September 30, 2020, in line with CARE's policy of factoring linkages in ratings.

Applicable Criteria

Criteria on assigning Outlook 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 in Ratings
Liquidity Analysis of Non-Financial Sector Entities

About the Company

ACGL *(CIN: L35911GA1980PLC000400; listed on BSE, with market capitalization of Rs.238.10 crore as on December 24, 2020*) was incorporated in September 1980 and jointly promoted by TML *(holds 48.98% stake as on September 30, 2020,* EDC Limited *(holds 6.66% stake; formerly known as Economic Development Corporation of Goa, Daman and Diu as on September 30, 2020)* and Tata Motors Finance Limited a subsidiary of TML (Formerly known as Sheba Properties Limited, holds 0.79% stake as on September 30, 2020.

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)	FY19 (A)	FY20 (A)	H1FY21 (A)
Total operating income	435.36	340.26	38.98
PBILDT	40.52	19.42	-10.02
PAT	20.86	9.96	-9.45
Overall gearing (times)	0.00	0.00	0.24
Interest coverage (times)	281.15	104.82	NM

A: Audited; NM: Not meaningful

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

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

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (22-Jan-20)	1)CARE AA; Stable (28-Mar-19)	1)CARE AA; Stable (29-Dec-17)
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (22-Jan-20)	1)CARE A1+ (28-Mar-19)	1)CARE A1+ (29-Dec-17)

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

Contact us

Media Contact
Mradul Mishra
Contact no. 022-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Ms. Amita Yadav
Contact no. 020 4000 9000
Email ID- amita.yadav@careratings.com

Analyst Contact 2
Mr. Divyesh Shah
Contact no. 020 4000 9069
Email ID- divyesh.shah@careratings.com

Relationship Contact
Mr. Aakash Jain
Contact no. : 020 4000 9090
Email ID: aakash.jain@careratings.com

About CARE Ratings:
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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**