Automobile Corporation of Goa Limited

August 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.00	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	3.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings of Automobile Corporation of Goa Limited (ACGL) factors in the strong operational, management, and financial linkages with Tata Motors Ltd (TML; rated 'CARE AA; Stable/CARE A1+'), which holds 48.98% stake in ACGL as on March 31, 2023. Furthermore, the ratings continue to factor stable business risk profile with recovery of operational performance, in FY23 against FY22. The recovery was driven by improved demand for buses from TML as mass transportation (school and offices) rebounded post COVID-19. The ratings continue to factor in its position as a strategic supplier to TML and meeting around 40% of their requirement for bus body. Furthermore, the ratings continue to factor a comfortable capital structure and healthy liquidity.

However, the ratings are constrained due to the company's limited scale and unutilised capacity, limited negotiating leverage led by high customer concentration, exposure to volatile commodity prices, and the cyclicality in the commercial vehicles industry.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant improvement in capacity utilisation leading to sharp improvement in the revenue and operating margins around 10% on a sustained basis.
- Substantial increase in the proportion of TML's buses supplied by ACGL.

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

- Any weakening of credit profile or weakening of linkages with TML.
- Any large debt-funded capital expenditure deteriorating its overall gearing ratio over 0.50x on a sustained basis.

Analytical approach: Standalone

Standalone, factoring the strong operational and managerial linkages with TML. For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has used its notch-up framework factoring in the support that it derives by being part of the TML.

Outlook: Stable

CARE Ratings has assigned stable outlook to the facility of ACGL on account of strong parental linkages with TML for operations and management, coupled with recovery in the business profile and strong financial profile. ACGL is expected to continue improvement in its scale driven by higher demand for buses.

Detailed description of the key rating drivers:

Key strengths

Strong operational, management, and strategic linkages with TML

ACGL continues to enjoy strong operational linkages with TML, being one of its leading suppliers for bus body and chassis, contributing around 40% 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 O. V. Ajay, who serves as the company's CEO and Executive Director. Furthermore, ACGL derives 90%-95% 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 48.98% as on June 30, 2023.

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

Recovery in business risk profile in FY23
For FY23, the company reported a total operating income (TOI) of ₹506.21 crore, recording sharp recovery with y-o-y growth of 80%. Due to higher volumes sold and improved capacity utilisation, operating margins also recovered to 6.12% as compared with 2.51% in the previous year. Capacity utilisation for the company recovered to around 60% (pre-COVID-19 levels) in FY23. However, as the volumes increased by around 193% in FY23, the average realisations have decreased led by product mix change due to higher sale of smaller school buses. In the next few years, factors including the policy on emission norms, road and infrastructure growth, urbanisation and city development of bus transit and the PPP model for urban and sub-urban stage bus operations are expected to stimulate demand.

Strong capital structure
In the absence of any long-term debt and given the low utilisation of working capital limits, the company has a comfortable capital structure in FY23. It avails the sales discounting facility from Tata Capital Finance Limited at the request of TML, who had asked its vendors to avail the facility to ensure immediate payment of dues to maintain liquidity. The increase in working capital led by increased operations and higher capacity utilisation has resulted in an overall gearing ratio of 0.37x (PY: 0.25x) as on March 31, 2023. CARE Ratings expects that going forward the company continue to have strong capital structure backed by high liquidity provided the working capital requirement does not increase significantly.

Key weaknesses

Concentration risk and low bargaining power
ACGL's revenues are mainly derived from sales of bus bodies and pressing components to TML, constituting approximately 90% of the TOI in FY23. The high contribution from a single customer restricts the bargaining power of ACGL. 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.

Exposure to commodity price risk
One of the major commodities for bus body industry is steel. The moderation in iron ore prices have reduced steel prices in the past year from ₹84,962/tonnes in FY22 to ₹76,967/tonnes in FY23; however, despite the moderation, the prices of iron ore, coking coal, and steel have shifted to a higher range of 70,000-75,000/tonnes in the last 4 months ending June 2023. For ACGL, the raw material consumed is around 70%-72% of the TOI having a significant impact on the profitability. ACGL negotiates prices with TML in case of adverse movement in the raw material prices on a quarterly basis.

Cyclicality in the CV industry
The CV industry is cyclical as its performance is largely dependent on the growth of the Indian economy. However, the degree of cyclicality within various segments tends to vary. CARE Ratings notes that ACGL's revenues are exposed to the highly cyclical bus segment under the CV segment, which is dependent on the budget allocations towards public transportation and economic conditions. This coupled with the entry of various global manufacturers has altered the market equation, making it a highly challenging business for original equipment manufacturers (OEMs) like TML impacting ACGL's growth.

Liquidity: Strong

The liquidity has remained robust because of 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 ₹48 crore and to TCFL to the tune of ₹50 crore as on March 31, 2023. The company also has a liquidity buffer consisting of unencumbered cash-bank and liquid investments to the tune of ₹29.10 crore as on March 31, 2023. Furthermore, the company has CC limit of ₹10 crore, of which only 12.3% has been used on an average of 12 months (as of June 2023).

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

ACGL promoted by TML, and Tata Motor Finance Limited (TMFL; a subsidiary of TML) (rated 'CARE AA; Stable/ CARE A1+). TML holds around 48.98% direct stake and 0.79% stake through TMFL. The company is into the manufacturing and assembling of bus bodies 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 Buimpal, Goa (with two facilities in Buimpal); Jejuri, Maharashtra; and Dharwad, Karnataka. ACGL has a bus building capacity of 10,000 buses per annum as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	281.78	506.21	153.36
PBILDT	7.06	30.98	14.68
PAT	3.44	27.85	10.10
Overall gearing (times)	0.25	0.37	NA
Interest coverage (times)	75.06	375.05	667.18

A: Audited UA: Unaudited NA: Not Applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	10.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Aug-22)	1)CARE AA-; Stable (02-Aug-21)	1)CARE AA; Stable (08-Jan-21)
2	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (05-Aug-22)	1)CARE A1+ (02-Aug-21)	1)CARE A1+ (08-Jan-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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

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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.

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