Automobile Corporation of Goa Limited

August 20, 2024

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 ratings assigned to the bank facilities of Automobile Corporation of Goa Limited (ACGL) reflects sustained improvements in its operating and financial performance. Ratings also factor in the strong linkages with Tata Motors Limited (TML; rated CARE AA+; Stable/CARE A1+), which holds 48.98% stake in ACGL as on July 22, 2024. The ratings continue to factor in its position as a strategic supplier to TML and meeting ~45-50% of TML's requirement for bus body. This strategic partnership has led to a significant portion of ACGL's revenue being sourced from TML.

However, the ratings are constrained company's unutilized capacity, exposure to volatile commodity prices and cyclicality in the commercial vehicles industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- 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

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, considering the support derived from being part of TML.

Outlook: Stable

CARE Ratings has assigned a stable outlook to ACGL's facilities due to its strong operational and managerial linkages with TML, coupled with sustained growth in its business and a strong financial profile. ACGL is expected to further improve its scale, driven by higher demand for buses from TML.

Detailed description of the key rating drivers:

Key strengths

Strong operational linkages and management representation derived from Tata Motors Limited (TML)

ACGL enjoys strong operational linkages with TML, being one of its leading suppliers for bus body requirements, contributing ~45-50% of TML's ICE bus body needs. As a part of the Tata group, ACGL benefits from managerial support, board representation, and the expertise of the larger organisation. Mr. Girish Wagh, Executive Director of TML, is also the Non-Executive Non-Independent Director of ACGL. The company derives the majority of its sales revenue from TML, accounting for 91.8% of the Total Revenue in FY24. Additionally, the company keeps Inter-Corporate Deposits (ICDs) with TML, which are callable in 2-3 days. These operational linkages and management representation underscore ACGL's close ties with TML.

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

Improved Business Risk Profile in FY24

ACGL operates with a bus-building capacity of 10,000 units per year at 65% utilisation. In FY24, ACGL's Total Revenue increased by 15.81% to ₹586.23 crore, driven by improved sales realisations, higher volumes, and better capacity utilisation. The company achieved its highest-ever bus sales, marking a strong performance. The Bus body building division remains the primary revenue contributor, while the Pressing division also showed growth. PBILDT margins improved by 150 bps to 7.62% in FY24, supported by increased volumes, reduced costs, and a flexible pricing strategy with TML. With Q1FY25 revenue surging by 35.19% to ₹207.31 crore, ACGL's business risk profile appears favourable, indicating strong growth prospects for the remainder of FY25.

Comfortable capital structure and debt coverage indicators

The company is net debt-free and has no long-term debt obligations, reflecting a strong financial position. It has secured a bill discounting facility from bank, which further enhances its liquidity. ACGL has placed Inter-Corporate Deposits (ICDs) worth ₹92 crore with TML and is expected to continue doing so, leveraging its strong relationship with TML. The company's overall gearing improved to 0.29x in FY24, supported by prudent financial management. CARE Ratings expects that the company's capital structure will remain strong in near to medium term in the absence of any major debt funded capex plans.

Liquidity: Strong

The company's liquidity remains robust due to consistent accruals and liquid investments, with no long-term debt obligations. As of end-FY24, ACGL has extended callable ICDs to TML. The company also maintains a liquidity buffer of ₹40.54 crore in unencumbered cash and liquid investments. Additionally, ACGL has a cash credit limit with minimal utilization over the past 12 months. With low gearing levels and minimal use of bank lines, the company has ample capacity to meet any additional working capital or capital expenditure needs.

Key weaknesses

Exposed to commodity price risk

Buses are made from a variety of structural components used in the automotive industry, including iron, steel, rubber, fiberglass, aluminium, and composite materials. Steel, a major commodity for the bus body industry, has shown significant price volatility recently. Fluctuations in steel prices directly affect the company's gross margins. For ACGL, raw materials consumed account for ~70%-72% of Total Revenue, significantly impacting its profitability. To mitigate the effects of adverse movements in raw material prices, ACGL negotiates prices with TML on a quarterly basis. These negotiations help to manage the commodity risk and maintain the company's financial stability.

Cyclicality in the CV industry

ACGL's revenues are exposed to the highly cyclical bus segment within the CV segment, which depends on budget allocations for public transportation and economic conditions. This, coupled with the entry of various global manufacturers, has altered the market dynamics, making it a highly challenging business for original equipment manufacturers (OEMs) like TML, thereby impacting ACGL's growth. Additionally, ACGL remains majorly dependent on TML for operations as it constitutes ~92% of ACGL's TOI in FY24. The high contribution from a single customer restricts ACGL's bargaining power.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

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 is promoted by Tata Motors Limited (TML) and Tata Motor Finance Limited (TMFL), a subsidiary of TML. TML holds ~48.98% direct stake and 0.79% stake through TMFL. The company engages in the manufacturing and sale of sheet metal components and bus bodies, with the majority of its revenue coming from the bus body building division. ACGL has five manufacturing facilities at four locations: Honda and Buimpal, Goa (with two facilities in Buimpal); Jejuri, Maharashtra; and Dharwad, Karnataka. As of FY24, ACGL has a bus building capacity of 10,000 buses per annum.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	506.21	586.23	203.90
PBILDT	30.98	44.68	25.29
PAT	26.29	37.42	18.35
Overall gearing (times)	0.37	0.29	NA
Interest coverage (times)	375.05	526.29	NA

A: Audited; UA: Unaudited; NA: Not Available; 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	10.00	CARE AA-; Stable	-	1)CARE AA-; Stable (02-Aug-23)	1)CARE AA-; Stable (05-Aug-22)	1)CARE AA-; Stable (02-Aug-21)
2	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (02-Aug-23)	1)CARE A1+ (05-Aug-22)	1)CARE A1+ (02-Aug-21)

LT: Long term; ST: 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.

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About us:
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