

Akar Auto Industries Limited

March 25, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Revised to CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four) from CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four) and Withdrawn
Long Term Bank Facilities	-	-	Revised to CARE BB-; Stable (Double B Minus; Outlook: Stable) from CARE BB; Stable (Double B; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4 (A Four) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has revised and withdrawn the outstanding ratings of 'CARE BB-; Stable' [Double B Minus; Outlook: Stable]/ CARE A4 (A Four) assigned to the bank facilities of Akar Auto industries Limited with immediate effect. The above action has been taken at the request of Akar Auto Industries Limited and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE.

The revision in rating factors in continued losses at PBT level over last two financials years FY20 (FY: refers to period from April 01 to March 31) and FY21; albeit improvement witnessed in 9MFY22, deterioration in overall gearing and weak debt coverage indicators. The rating also remains tempered by modest scale of operations, volatile input prices, working capital intensive nature of business and higher leverage, pricing pressure from the OEM's, susceptibility to the cyclical nature of domestic automobile segment. However, the ratings derive strength from promoter's experience in the field of auto ancillary and steel industry, long term relationship with reputed and diversified clientele.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operation and losses at PBT level in FY20 and FY21.

AAIL registered 4.59% decline in total operating income from Rs.198.97 crore in FY20 to Rs.189.82 crore during FY21 on account of slowdown in the automobile sector aggravated by the Covid-19 outbreak. However, during 9MFY22, AAIL registered a TOI of Rs.182.08 crore as against Rs.117.60 crore during 9MFY21, registering a growth of 54% on YoY basis. Moreover, the company continued to report losses at PBT level in FY20 and FY21; albeit for 9MFY22 the company reported a PBT of Rs.4.34 crore. AAIL has one plant which is dedicated solely for manufacturing of leaf springs for public transport vehicles and due to the lockdown and social distancing norms, the demand from public sectors vehicles had declined significantly.

Financial risk profile marked by leveraged capital structure and weak debt coverage indicators.

The debt profile comprises of Term loans, working capital borrowings and unsecured loans from promoters. The unsecured loan to the tune of Rs.12.74 crore extended by the promoters are subordinated to bank debt and hence, are treated as quasi equity. The overall gearing continued to remain high and further deteriorated to 3.39x as on March 31, 2021 as against 2.76x as on March 31, 2020. Although, the total debt to GCA marginally improved to 36.09x as on March 31, 2021 from 42.34x as on March 31, 2020, but remained weak. Interest coverage ratio remained moderate at 1.30x during FY21 and 1.24x during FY20.

Volatility in raw material prices and dependence on Group Company for procurement

The prices of steel have been fluctuating in the past due to volatility in the global commodity markets. Moreover, AAIL operates in an industry where the raw material cost is one of the major cost drivers (constituting about ~65% of TOI over the years) and one of the major components to impact operating margin. AAIL procures around 60-70% of raw material from its group companies for various grades of steels manufactured by them. Any adverse impact on the operations of these group companies may impact the timely procurement of raw materials and subsequently costs of these materials. The prices are negotiated with customers especially OEMs, when the price of the raw material increases, the same is incorporated within the next quarter, however impact of time lag remains.

Susceptibility to cyclical nature in the end user segment

The leaf spring industry in India is a commoditized business and prone to cyclical nature from the automobile segment. AAIL derives majority of its income from tool division, commercial vehicle & the two-wheeler segment also from replacement demand for AAIL products. This Inherent cyclical nature in these industries could pose a challenge for the company and hamper its growth prospects in future, thereby affecting its revenue generation capabilities and profitability. A fall in the level of economic activity can impact the sales of the automotive industry as the automobile manufacturers may limit the production levels. Also, customer proximity through multiple-location manufacturing and cost-efficiency manage end-segment cyclical nature are imperative for a strong

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

competitive positioning. AAIL mitigates this risk with its manufacturing facilities located in the proximity of the industrial hubs at Aurangabad. The company derives majority (around 60-70%) of its income from automobile OEMs with CV segment being the top contributor. The automobile segment is cyclical in nature which exposes the company to the risk of deterioration in financial risk profile due to the slowdown in the auto segment.

Presence in fragmented industry

AAIL manufactures products and operates in an industry which comprises of several players and is also characterized by high degree of fragmentation. This resulted in intense competition in the industry. Further, the industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. However, for the customised products manufactured as per the OEMs specification, the entry barrier is high. Further, it is also challenging for smaller players to achieve the preferred vendor status.

Risk associated to foreign exchange fluctuation.

The company faces foreign exchange fluctuation risk as it exports various products to its overseas customer. The company partially hedges its foreign exchange exposure by using forward contracts. AAIL hedges nearly 50% of the export receivables through forward contracts.

Key Rating strengths

Long track record of operations and over two decades of experience possessed by the promoters.

AAIL has a track record of more than two decades of operations. The company is promoted by Mr. R.L. Gupta (Chairman) and family group, holding ~73% of shares as on December 31, 2020. He has a vast experience of more than five decades in the industry. Mr. N.K. Gupta (Director), son of Mr. R.L. Gupta, is a graduate and has an experience of 40 years in steel, hand tools & forging industries. He is responsible for the production and administration activities in the company. The directors are involved in the day-to-day activities of the business and are ably supported by a qualified and professional management team who looks after various activities of production, procurement, finance, and administration.

Strong clientele base with more focus on acquisition of export clients

AAIL derived 75% of its total operating income from the domestic market and remaining from the export market during FY20. AAIL exports to global developed markets like USA, Europe, and Mexico. However, during H1FY21, export sale was ~28% of its total operating income. The company's customer base includes clients such as Ashok Leyland Limited, Tata Motors Limited, VE Commercial Vehicle Ltd, York Transport Equipment (India) Private Limited and Bajaj Auto Limited etc. The clientele operates in diverse end user industries such as automotive and professional tools etc. The established track record of AAIL has assisted it in ensuring repeat orders.

Modest order book position

The order book position as on March 15, 2021 stood at Rs.71.81 crore out of which around Rs.3 crore had been executed till date and the rest will be executed in the first quarter of FY22. The company had acquired new export customers in their forging and leaf spring division during the current year. Higher margin products have been introduced in both the forging and leaf spring division. The moderate order book position and expected order inflow provides revenue visibility for medium term. **Diversified**

product portfolio

AAIL manufactures a diverse variety of products which caters to automotive and non-automotive original equipment manufacturers (OEMs). It includes leaf springs, forgings, tool kits and hand tools. Leaf springs and forgings majorly find its application in the automotive segment. The contribution from Leaf Springs division have increased during FY20 to 43% on account of higher demand from this division in comparison to other. There's no change in the contribution from hand tools on account of steady export demand.

Liquidity analysis: Stretched

Liquidity is marked by accruals of Rs.2.41 crore in FY21 to repayment obligations of Rs.6.50 crore in FY22, highly utilized bank limits at 97% for the last 12 months ended February 2021 and modest cash balance of Rs.0.22 crores as on March 31, 2021. The operating cycle of the company elongated during FY21 and stood at 129 days as compared to 116 days during FY20. The elongation is on account of higher inventory days and longer collection period. The average utilization of the company for the last 12 months ended February 28, 2021 remained at 97.11%.

The company availed moratorium for both the phases and also availed the emergency working capital term loans of Rs.9.50 crore and Rs.4.13 crore during FY21. FITL of Rs.1.14 crore was opened by the lender and the full payment of the same has been done as on date.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Rating Methodology - Manufacturing Companies](#)

About the Company

Akar Auto Industries Limited (Formerly Akar Tools Limited), AAIL was founded by Mr. R.L. Gupta (Chairman) as a private limited company in the year 1989. AAIL manufactures hi-quality precision engineered forging components, Hand Tools, Tool kits and Leaf Springs to cater to major auto & non-auto OEM's. AAIL is a part of Aurangabad based R.L. Group of Industries whose sister concern R.L. Steels & Energy Limited (rated CARE BB-; Stable(Issuer Not Cooperating)/CARE A4(Issuer Not Cooperating); Revised LT rating on December 23, 2021) is engaged in manufacturing of alloy steel products in rounds, squares, flats and special profiles. AAIL procures majority of the raw material from its group entity R.L. Steels & Energy Limited and supplies its end products to major OEMs domestically and exports to competitive markets like North America, both in auto & non-auto OEM's. With a workforce of more than 400, AAIL has four manufacturing facilities coupled with state-of-the art machining & testing facilities located in various industrial hubs in Aurangabad. AAIL became a Public Limited Company and was listed on BSE/NSE in 1994.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	198.97	189.82	182.08
PBILDT	9.50	10.46	13.53
PAT	-3.06	-2.84	4.80
Overall gearing (times)	2.76	3.39	NA
Interest coverage (times)	1.24	1.30	2.33

A: Audited; NA: Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	ISI N	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	September 2024	0.00	Withdrawn
Non-fund-based - LT-Bank Guarantee		-	-	-	0.00	Withdrawn
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	0.00	Withdrawn
Fund-based - ST-Foreign Bill Discounting		-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST*	-	-	1)CARE BB; Stable / CARE A4 (08-Apr-21)	1)CARE BB; Stable / CARE A4 (19-May-20)	1)CARE BB; Stable / CARE A4 (05-Mar-20)	-
2	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A4 (08-Apr-21)	1)CARE A4 (19-May-20)	1)CARE A4 (05-Mar-20)	-
3	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB; Stable (08-Apr-21)	1)CARE BB; Stable (19-May-20)	-	-
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	1)CARE BB; Stable (08-Apr-21)	1)CARE BB; Stable (19-May-20)	-	-
5	Fund-based - ST-Packing Credit in Foreign Currency	ST	-	-	1)CARE A4 (08-Apr-21)	1)CARE A4 (19-May-20)	-	-
6	Fund-based - ST-Foreign Bill Discounting	ST	-	-	1)CARE A4 (08-Apr-21)	1)CARE A4 (19-May-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Fund-based - ST-Foreign Bill Discounting	Simple
4	Fund-based - ST-Packing Credit in Foreign Currency	Simple
5	Non-fund-based - LT-Bank Guarantee	Simple
6	Non-fund-based - ST-Letter of credit	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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Manohar S Annappanavar
Contact no.: +91-22-6754 3436
Email ID: manohar.annappanavar@careedge.in

Relationship Contact

Name: Aakash Jain
Contact no.: +91-20-4000 9090
Email ID: aakash.jain@careedge.in

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