Automobile Corporation of Goa Limited

January 22, 2020

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 (Rupees Thirteen crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the 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 December 31, 2019)*, with significant operational and management linkages with various group entities of the group, mainly Tata Motors Limited *(TML)*.

The reaffirmation further continues to factor in the long and established track record of the company of more than three decades in manufacturing of bus components coupled with a strong financial risk profile with stable profitability, comfortable capital structure and healthy debt coverage indicators in FY19 *(refers to a period from April 1 to March 31)*. The ratings also take a note of the strong liquidity position with its surplus accruals placed in the form of loans & advances and inter-corporate deposits (ICD's) with Tata Cleantech Capital Ltd. (TCCL) and TML as on September 30, 2019.

The rating strengths however, continue to remain constrained on account of the relatively low bargaining power of the company and inherent cyclicality associated with the automobile industry which has witnessed a prolonged slowdown continuing into Q3FY20, which may have a bearing on the financial risk profile of the company. The ratings also take a note of decline in total operating income during FY19 and H1FY20 *(Audited, refers to April 1 to September 30)*.

Rating Sensitivities

Positive Factors

- Significant growth in revenue on a sustained basis
- Increased capacity utilization and cost optimization leading to better absorption of fixed costs
- Diversification of product applications

Negative Factors

- Sustained weakening in revenue and profitability
- 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 0.15x on a sustained basis
- Deterioration in the liquidity position with any stretch in the receivables position or unrecoverable incremental exposure towards group companies

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. Further, 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.

Strong capital structure and debt coverage indicators

The healthy accretion of profits to its net-worth over the years coupled with absence of any long term debt and unutilized working capital borrowing as on March 31, 2019, resulted in a above average capital structure as on March 31, 2019 (P.Y.: 0.01x). Further with lower utilization of bank lines the debt coverage indicators improved and remained strong with PBILDT interest coverage ratio of 281.15x (P.Y.: 95.06x) and total debt to TDGCA of 0.23x during FY18 (P.Y.: 0.09x). Maintaining the capital structure is key rating monitorable.

Liquidity in the form of advances extended to group companies

ACGL has extended advances to group companies TCCL *(rated CARE AAA; Stable as on January 06, 2020)* and TML *(rated CARE AA-; Negative/A1+ as on August 19, 2019)* in the form of inter corporate deposits (ICD) and short-term & long-term advances extended. The advances extended to TML are callable in nature and carries interest rate of 7.5% whereas advances extended to TCCL carries interest rate in the range from 8.50% - 8.75% and has tenure of one year. As on March 31, 2019 the ICD's position stood at Rs.100 crore *(as against Rs.123.00 crore as on March 31, 2018)* with Rs.23 crore outstanding with TML as on March 31, 2019. During Q3FY20, the company has completed its share buy-back program of Rs.24.74 crore funded partly through repayments from TML and internal accruals. Timely receiving the same from group, whenever required, is key rating sensitivity.

Stable profitability margins albeit decline in total operating income

The total operating income (TOI) of the company registered a y-o-y decline in FY19 to Rs.435.36 crore (PY: Rs.497.13 crore) and declined to Rs.209.45 crore H1FY20 (PY: Rs.234.22 crore) on account of decline in revenues from the bus body segment due to reduction in the higher value buses sold. However, the pressing segment registered growth with increase in volumes from TML and Tata Cummins Private Limited (TCPL) during FY19.

The company utilised 58% of its installed capacity to manufacture buses in FY19 (PY: 57%) and does not envisage any major capital expenditure in the next two years.

Despite the decline in TOI, profitability improved from the various cost cutting measures undertaken by the company. Further, the company incurred a one-time expense of Rs.4.17 crore towards its VRS scheme for employees during FY19. PBILDT margin of the company improved by 193 bps to 9.30% during FY19 (PY: 7.37%) whereas the PAT margin improved by 37 bps to 4.79% (PY: 4.42%).

Key Rating Weaknesses

Customer concentration risk

ACGL's revenues are mainly derived from sales of bus bodies to TML, constituting to approximately 84% of the TOI in FY19. 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 auto industry is currently facing slowdown in India as well as globally. The impact of slowdown in automobile industry is continuing with decline in volumes during H1FY20. On the back of overall slowdown in auto segment and weak near term outlook, growth challenges remain for auto component industry going forward. With new stringent emission norms and electric vehicles production in the domestic market, a range of updated as well as new auto comps is expected to enter the market driving the demand. Compliance to BS VI will also help discover newer export markets for their components. At the same time, capex on technology advancement and product capabilities may continue to remain high exerting pressure on companies' cash flow. Component manufacturers supplying across segments and having diverse revenue source from aftermarkets, exports besides OEMs may weather the current slowdown better than players with concentrated product or geographic profile.

Liquidity: Strong

Liquidity is marked by strong accruals and liquid investments as against no long term debt repayment obligation. Further, the company has extended callable ICD's to its group companies to the tune of Rs.100 crore. With above average gearing levels and negligible utilisation of bank lines, the issuer has sufficient gearing headroom, to meet its incremental working capital needs over the next one year. Moreover, the company does not envisage any major capex requirements expected during the period FY20-22.

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 December 31, 2019.

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 Rating

About the Company

ACGL (*listed on BSE, with market capitalization of Rs.340.05 crore at market price of Rs.558.50; closing price as on January 08, 2020*) was incorporated in September 1980 and jointly promoted by Tata Motors Limited *(TML holds 48.98% stake as on December 31, 2019,* EDC Limited *(holds 6.66% stake; formerly known as Economic Development Corporation of Goa, Daman and Diu as on December 31, 2019)* and Tata Motors Finance Limited a subsidiary of TML (Formerly known as Sheba Properties Limited, holds 0.79% stake as on December 31, 2019.

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)	FY18 (A)	FY19 (A)	H1FY20 (A)
Total operating income	497.13	435.36	209.45
PBILDT	36.63	40.52	17.62
PAT	20.16	20.86	11.43
Overall gearing (times)	0.03	0.00	0.01
Interest coverage (times)	95.06	281.15	160.18

A: Audited

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: Not Applicable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (28-Mar-19)	1)CARE AA; Stable (29-Dec-17)	1)CARE AA (12-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (28-Mar-19)	1)CARE A1+ (29-Dec-17)	1)CARE A1+ (12-Oct-16)

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

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
Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ms. Monika Goenka
Group Head Contact no.: 020 - 40009019
Group Head Email ID: monika.goenka@careratings.com

Business Development Contact
Name: Mr Aakash Jain
Contact no. : 020 - 40009090
Email ID: aakash.jain@careratings.com

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