

## Automobile Corporation of Goa Limited

December 29, 2017

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	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
<b>Total</b>	<b>13.00</b> <b>(Rupees Thirteen crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale

The ratings reaffirmed to the bank facilities of Automobile Corporation of Goa Limited (ACGL) continue to take into account the strong parentage of the TATA group, with Tata Motors Limited (TML, CARE AA+; outlook stable) being the promoter and majority shareholder (*TML holds 46.44% stake as on March 31, 2017*), along with the management support with TML executives being on the board of ACGL and group synergies with considerable amount of revenues derived from group companies. The ratings also take into consideration, the long and established track record of the company of more than three decades in manufacturing of bus components coupled with healthy financial risk profile marked by improvement in the profitability, favourable capital structure and comfortable debt coverage indicators along with improvement in the total operating income (TOI) of the company during FY17 (refers to the period from April 01 to March 31) . The ratings also take note of healthy cash accruals generated by the company, placed in the form of loans & advances and inter-corporate deposits (ICD) with various group companies as on March 31, 2017.

The ratings continue to remain constrained on account modest scale of operations, relatively low bargaining power of the company, and inherent cyclicity associated with the automobile industry coupled with the intense competition from various organized players of the industry.

The ability of the company to increase its scale of operations, sustaining the improvement in profitability and efficient management of its working capital requirements are the key rating sensitivities.

### Key Rating drivers

### Key Rating Strengths

#### ***Strong parentage of Tata group, operational linkages and strong management representation derived from Tata Motors Limited (TML)***

ACGL is a Tata group company and an associate company of Tata Motors Limited (TML rated; 'CARE AA+; outlook stable') with TML holding 46.44% stake in ACGL as on March 31, 2017. TML is one of the leading automotive manufacturers in India which has presence across various geographies such as Europe, US, China, Russia and Brazil. The company's manufacturing base in India is spread across Jamshedpur (Jharkhand), Jejuri near Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka). ACGL's Board of Directors (BOD) has a strong management team headed by Mr. Shrinivas Dempo (Chairman) and has strong representation from the Tata group. The Board consists of Mr. O. Vijay (Executive Director),

Mr. Ravindra Pisharody (Director), Mr. Steven Pinto (Director), Mr. Yatin Kakodkar (Director),

<sup>2</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

Mr. R. Ramakrishnan (Director) and Dr.Vaijayanti Pandit (Director). Further, ACGL's largest customer is also TML which contributed 89% of the gross sales of FY17.

***Healthy financial risk profile marked by improvement in profitability during FY17 and Q2FY18 coupled with comfortable overall gearing and debt protection indicators***

The total operating income (TOI) of the company registered a CAGR of 5.75% over the past three years ended March 31, 2017. The TOI of the company registered a 12.08% y-o-y growth in its TOI to Rs.474.67 crore during FY17. The growth was on account of the higher volume growth in the bus segment which constitutes around 87% of the TOI during FY17, followed by sales of pressed parts constituting 13% of the TOI during FY17. The number of buses sold registered a y-o-y growth of 19.46% to 5,925 buses during FY17 (highest number of buses sold by ACGL since inception) from 4,960 buses during FY16. The volume growth was largely driven by MCV segment which registered a y-o-y volume growth of 43% during FY17.

However, the volume growth was negated by marginal decline in the average sales realization of the buses. The PBILDT margin improved marginally to 7.95% during FY17 as compared to margin of 7.45% during FY16 on account of the reduction in the raw material prices, which was passed on. Thereafter, absence of any long term debt coupled with lower interest charges led to an improvement in PAT of Rs.20.96 crore during FY17 as against Rs.16.53 crore during FY16. Nevertheless, the gross cash accruals (GCA) of the company registered 25.14% growth to Rs.27.33 crore during FY17 (FY16: Rs.21.84 crore).

**Key Rating Weakness**

***Relatively weak bargaining power***

ACGL largely sells its buses to TML which in turn bids on tender based orders placed by State Transport Units (STU). Since, there exist several large players in the bus building segment, there is high competition leading to pricing pressure which is evident from the lower average sales realization of the bus over the last couple of years. As a result, pricing is the key for the TML to garner customer. TML being a large customer of ACGL, the profitability of ACGL depends on the ability of TML to successfully get orders as well as margin of TML.

***Modest scale of operations***

ACGL's scale of operations is modest at Rs.474.68 crore largely due to manufacturing of a single product (bus body) and majority of sales are made to a single client ie. Tata Motors Limited.

***Cyclical 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 cyclical in 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.

**Analytical Approach – Standalone**

**Applicable Criteria**

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

[Criteria for Short Term Instruments](#)

[Financial Ratios-Non Financial Sector](#)

[Rating Methodology : Manufacturing Companies](#)

[Rating Methodology : Commercial Vehicles](#)

[Rating Methodology: Factoring Linkages in Rating](#)

[Criteria on assigning Outlook to Credit Rating](#)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	423.51	474.68
PBILDT	31.58	37.76
PAT	16.53	20.96
Overall gearing (times)	0.02	0.01
Interest coverage (times)	82.21	151.24

### Company Background

Automobile Corporation of Goa Limited (ACGL), incorporated in September 1980 is jointly promoted by Tata Motors Limited (*TML holds 46.44% stake as on March 31, 2017, rated: 'CARE AA+'*), EDC Limited (*holds 6.31% stake; formerly known as Economic Development Corporation of Goa, Daman and Diu as on March 31, 2017*) and Sheba Properties Limited (*holds 0.75% stake a subsidiary of TML as on March 31, 2017*).

The company is into manufacturing and assembly of bus coaches, and it also manufactures sheet metal components for buses. ACGL has manufacturing facilities at four locations - Honda & Bhuimpal (in Goa with two facilities in Bhuimpal), Jejuri (Maharashtra) and Dharwad (Karnataka).

ACGL is a TATA group company and derives majority of its sales revenue from TML (*sales to TML consisted of 89% of TOI during FY17 vis-a-vis 85% during FY16*). ACGL has bus building capacity of 10,000 buses per annum.

**Status of non-cooperation with previous CRA** – Not Applicable

**Rating History (Last three years):** Please refer Annexure II

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

*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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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## 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA (12-Oct-16)	1)CARE AA (30-Jun-15)	-
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A1+	-	1)CARE A1+ (12-Oct-16)	1)CARE A1+ (30-Jun-15)	-

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