

**Automobile Corporation of Goa Limited**  
**March 28, 2019**

**Ratings**

| Facilities                 | Amount<br>(Rs. crore)                      | Rating <sup>1</sup>  | Rating Action     |
|----------------------------|--|--|-------------------|
| Long term Bank Facilities  | 10.00                                      | <b>CARE AA; Stable<br/>(Double A;<br/>Outlook: Stable)</b> | <b>Reaffirmed</b> |
| Short-term bank facilities | 3.00                                       | <b>CARE A1+<br/>(A One Plus )</b>                          | <b>Reaffirmed</b> |
| <b>Total</b>               | <b>13.00<br/>(Rs. Thirteen crore only)</b> |  |                   |

*\*Details in Annexure I.*

**Detailed Rationale**

The reaffirmation of the ratings to the bank facilities of Automobile Corporation of Goa Limited (ACGL) continues to take into account the strong parentage of the TATA group, with Tata Motors Limited (TML) being the promoter and majority shareholder (*TML holds 46.44% stake as on December 31, 2018*), along with the 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 stable profitability, strong capital structure and debt coverage indicators.

The ratings also take a 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, 2018.

The rating strengths continue to remain constrained on account of the relatively low bargaining power of the company and inherent cyclicity associated with the automobile industry. The ratings also take a note of decline in total operating income during 9MFY19 (Audited, refers to April 1 to December 31)

The ability of the company to increase its scale of operations while improving the profitability and efficient working capital management are the key rating sensitivities.

Further, any additional exposure towards group companies will also be a key rating monitorable.

**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 with TML holding 46.44% stake in ACGL as on March 31, 2018. 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), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat), Pune (Maharashtra) and Dharwad (Karnataka). ACGL's Board of Directors (BOD) has strong representation from the Tata group, currently Mr. O. Vijay being the Executive Director represents Tata Group in the board.

ACGL's largest customer is also TML which contributed 88.84% of the gross sales of FY18.

*Going forward any further any additional exposure towards group companies will also be a key rating monitorable.*

***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. 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 also as the Managing

Director of the group's parent 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.

#### ***Marginal increase in operating income during FY18 and stable profitability margins***

The TOI of the company registered a 4.73% y-o-y growth in its TOI to Rs.497.13 crore during FY18. The growth was derived from the pressed parts segment, while sales from buses segment continued to maintain its dominance. PBILDT margin of the company, declined marginally by 55 bps to 7.37% during FY18 (PY:7.95%) PAT margin was seen at 4.05% during FY18 (PY:4.42%) also stood range bound at 3.80% - 4.5%.

During 9MFY19, ACGL registered TOI of Rs.326.37 crore representing a Y-o-Y decline of 17.10%. On account of decline in raw material cost and other expenses company PBILDT margin of the company improved and stood at 9.24% during 9MFY19.

#### ***Strong capital structure and debt coverage indicators***

Over the years healthy accretion of profits to its net-worth coupled with absence of any long term debt resulted into comfortable capital structure marked by comfortable overall gearing of 0.03x as on March 31, 2018 (P.Y.:0.01x). Debt coverage indicators remained strong with interest coverage ratio of 95.06x (P.Y.:151.24x) and total debt to TDGCA also remained comfortable at 0.23x during FY18 (P.Y.: 0.09x).

#### ***Liquidity Analysis***

As on March 31, 2018, company has current investment amounting to Rs. 3.17 crore in mutual funds and callable on demand investment in group companies in the form of loans and advances amounting to Rs. 123.00 crore. Further the average utilization of the fund based working capital limits remained low at 18.47% and current ratio stood at 2.27x as on March 31, 2018 (PY 2.48x).

#### **Key Rating Weaknesses**

##### ***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). 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 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. Further during FY18 TML contributed 88.84% of the ACGL's gross sales of FY18.

##### ***Advances extended to group companies***

ACGL has extended advances to group companies TML & Tata Cleantech Capital Limited in the form of inter corporate deposits 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, 2018 ICD has increased from Rs.91.00 crore as on March 31, 2017 to Rs.123.00 crore as on March 31, 2018.

##### ***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**

Automobile exports grew by 18.53 per cent during April-December 2018. It is expected to grow at a CAGR of 3.05 per cent during 2016-2026. Further the automobile industry is supported by various

factors such as availability of skilled labour at low cost, robust R&D centres and low cost steel production. The industry also provides great opportunities for investment and direct and indirect employment to skilled and unskilled labour. Also the Indian automotive industry (including component manufacturing) is expected to reach Rs 16.16-18.18 trillion (US\$ 251.4-282.8 billion) by 2026.

## Approach – Standalone

### 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 : Commercial Vehicles](#)

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

### Company Background

Automobile Corporation of Goa Limited (ACGL, listed on BSE, with market capitalization of Rs. 396.86 crore at market price of Rs. 578.15; closing price as on March 23, 2019), incorporated in September 1980 is jointly promoted by Tata Motors Limited (TML holds 46.44% stake as on March 31, 2018, EDC Limited (holds 6.31% stake; formerly known as Economic Development Corporation of Goa, Daman and Diu as on March 31, 2018) and Tata Motors Finance Limited a subsidiary of TML (Formerly known as Sheba Properties Limited, holds 0.75% stake as on December 31, 2018).

The company is into manufacturing and assembling of bus coaches and 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).

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) | 9MFY19 (A) |
|------------------------------|----------|----------|------------|
| Total operating income       | 474.68   | 497.13   | 326.37     |
| PBILDT                       | 37.76    | 36.63    | 30.15      |
| PAT                          | 20.96    | 20.16    | 17.21      |
| Overall gearing (times)      | 0.01     | 0.03     | NA         |
| Interest coverage (times)    | 151.24   | 95.06    | 335        |

A: Audited, NA- Not Available in public domain

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

**Any other information:** Not Applicable

**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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

### 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based - LT-Cash Credit            | LT              | 10.00                          | CARE AA; Stable | -   | 1)CARE AA; Stable (29-Dec-17)             | 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+ (29-Dec-17)                    | 1)CARE A1+ (12-Oct-16)                    | 1)CARE A1+ (30-Jun-15)                    |

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