Akar Auto Industries Limited

January 03, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Instruments	46.31 (reduced from Rs 58.82 crore)	IVR BBB-/ Stable (IVR Triple B minus with Stable Outlook)	IVR BBB-/ Stable (IVR Triple B minus with Stable Outlook)	Reaffirmed	**Simple**
Short Term Bank Facilities	48.50 (enhanced from Rs 39.50 crore)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed	**Simple**
Total	**94.81 (INR Ninety-four crore and eighty-one lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Akar Auto Industries Private Limited (AAIL) continues to derive comfort from extensive experience of promoters in the automotive component industry, improvement in topline and operating profitability in FY24 (Refers to the period April 01,2023 to March 31,2024) and H1FY25 (Refers to the period April 01,2024 to September 30,2024), diversified revenue stream with presence in both domestic and export markets and reputed and established clientele base. However, these rating strengths continue to remain partially offset by leveraged capital structure albeit adequate coverage indicators, exposure to intensive competitiveness which exerts pressure on margins, and cyclicality in the overall auto components industry.

The long-term rating outlook of the company is expected to remain stable driven by sustained improvement in business and financial risk profile, coupled with experienced promoters and favourable demand outlook in the overall industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics.
- Improvement in capital structure with improvement in overall gearing.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.
- Further deterioration in capital structure with increase in debt.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters in the automotive component industry**

The promoters of AAIL have an extensive experience in the auto component manufacturing industry spanning around three decades which has enabled the company to establish and maintain a healthy relationship with the customers and suppliers. Promoters are well supported by an experienced team of professionals.

- **Improvement in the topline and operating profitability in FY24 and H1FY25**

AAIL's total operating income grew marginally by ~2% y-o-y in FY24 to Rs. 373.81 crore, from Rs 367.07 crore in FY23 (Refers to the period April 01,2022 to March 31,2023), primarily due to reduced product prices despite strong volume growth. The price reduction is aligned with the company's policy of passing on input cost savings to OEMs to maintain competitiveness. EBITDA at absolute levels improved by ~7%, reaching Rs. 23.89 crore in FY24 from Rs 22.22 crore in FY23, with a margin expansion of 34 basis points to 6.39% in FY24 (PY: 6.05%), driven by moderation in raw material costs. However, PAT at absolute levels declined by ~20% and stood at Rs 5.48 crore in FY24 from Rs 6.90 crore in FY23, and PAT margins moderated by 41 basis points to 1.47% (PY:1.88%) in FY24 due to higher interest costs stemming from increased total debt. In H1FY25, AAIL saw strong volume growth supported by favorable industry demand. Despite this, the ~3% topline growth was tempered as moderated steel prices led to further price reductions passed to OEMs. TOI during H1FY25 stood at Rs 190.90

crore in comparison to Rs 185.23 crore achieved in H1FY23. Cost efficiencies, including reduced input and power costs from a new solar project, contributed to EBITDA and PAT improvement during H1FY25 which stood at Rs 11.96 crore (H1FY24: Rs 10.82 crore) and Rs 3.38 crore (H1FY24: Rs 2.62 crore) respectively.

- **Diversified revenue stream with presence in both domestic and export markets**

AAIL has a diversified geographical presence in both the domestic and export markets, thus insulating it to an extent against moderation in demand from any one market. Exports account for ~20% of its revenue in FY24 and the rest constitute domestic sales. Furthermore, in export markets the countries in which AAIL caters to include USA, Netherland, Germany, South Africa, Canada, Italy, Saudi Arabia, UK, Tanzania, Vietnam, Hungry and Poland. AAIL is further looking to diversify the geographical presence by adding more export regions in European Union.

- **Reputed and established clientele base**

The company clientele consists of reputed names including Harbor Freight Tools, Ashok Leyland Limited, Volvo Eicher Commercial Vehicle Ltd, York Transport Equipment (India) Private Limited and Bajaj Auto Limited etc, which reduces counterparty risk to an extent.

Key Rating Weaknesses

- **Leveraged capital structure albeit adequate coverage indicators**

AAIL's adjusted net worth as on March 31, 2024, consist of subordinated unsecured loans aggregating to Rs. 4.93 crore from the promoters which is considered as quasi equity. Considering the same the adjusted tangible net worth of the company stood at Rs.49.40 crore as on March 31, 2024, compared with Rs. 44.50 crore as on March 31, 2023. On the contrary, total debt increased to Rs 73.14 crore as on March 31,2024 from Rs 59.85 crore as on March 31,2023 due to availment of additional term loans for expansion of capacity and setting up of solar power plant. The adjusted overall gearing ratio was 1.48x as on March 31, 2024, and the same deteriorated from levels of 1.34x as on March 31, 2023. Further, total indebtedness as measured by TOL/TNW also deteriorated and was at 3.38x as on March 31, 2024, compared with 3.20x as on March 31, 2023. The interest coverage ratio although marginally deteriorated on account of increase in interest costs but stood comfortable at 2.14x as on March 31, 2024 (2.21x as on March 31, 2023). DSCR was 1.38 times in FY24 (PY:1.29 times) and Total debt/GCA was 6.30x in FY24 (PY: 5.80x).

- **Intense competition in the industry thus exerting pressure on the margins**

Intense competition due to the presence of other automotive component manufacturers, exerts pricing pressures, which would likely weigh on the company's operating margins. With increasing presence of domestic as well as international players in the automotive ancillary business, the competition had increased over the years. Nonetheless, AAIL's established relationship with its clients mitigates the risk to a certain extent.

- **Exposure to cyclicality in the industry**

The company's business is susceptible to inherent cyclicity in the automotive industry. This sector is closely tied to the performance of the automotive industry, which experiences cyclical fluctuations based on factors like consumer demand, economic conditions, fuel prices, interest rates, and government policies. When the economy is growing, demand for vehicles and, in turn, auto components increases. Conversely, during economic downturns or when the automotive sector faces challenges, demand for components tends to decline. Furthermore, global factors like raw material price volatility, particularly for metals such as steel and aluminum, can add to the cyclicality.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity –Adequate

The liquidity position of AAIL is adequate marked by its expected gross cash accruals as against debt obligations from FY25 to FY27. At the same time, the company's bank limits are utilized to the extent of ~90% on an average for the period ended September 2024 indicating some liquidity cushion.

About the Company

Incorporated in 1989, Akar Auto Industries Limited is engaged in the manufacture of hi- quality precision engineered forging components, hand tools, tool kits and leaf springs for major auto and non-auto OEM's. The installed capacity of its manufacturing unit is 34,300 MTPA. Its products are supplied to major OEMs domestically and exported to USA, Netherland, Germany, South Africa, Canada, Italy, Saudi Arabia, UK, Tanzania, Vietnam, Hungry and Poland. The company is listed on BSE.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	367.07	373.81
EBITDA	22.22	23.89
PAT	6.90	5.48
Total Debt	59.85	73.14
Tangible Net Worth (Adjusted)	44.50	49.40
EBITDA Margin (%)	6.05	6.39
PAT Margin (%)	1.88	1.47
Overall Gearing Ratio (Adjusted) (x)	1.34	1.48
Interest Coverage (x)	2.21	2.14

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					December 04, 2023	November 04,2022	March 03,2022
1	Term Loans	Long Term	17.01	IVR BBB-/Stable	IVR BBB-/Stable	IVR BBB-/Stable	IVR BB+/Stable
2	WCDL	-	-	-	-	-	IVR BB+/Stable
3	GECL	Long Term	4.50	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB+/Stable
4	Cash Credit Limits	Long Term	24.80	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB+/Stable
5	Packing Credit	-	-	-	-	-	IVR A4+
6	FDB/FBE/BRD	-	-	-	-	-	IVR A4+
7	PC/PCFC/FDB/FBE/BRD	Short Term	34.00*	IVR A3	IVR A3	IVR A3	-
8	ILC	Short Term	8.00	IVR A3	IVR A3	IVR A3	IVR A4+
9	Bank Guarantee	Short Term	6.50**	IVR A3	IVR A3	IVR A3	IVR A4+
10	Unallocated Limits	-	-	-	-	-	IVR BB+/ Stable/ IVR A4+

*one way interchangeability from FB limit to Non-fund based limit to the maximum of Rs. 5.00 crore.

**one way interchangeability from BG to LC

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	-	FY26	2.01	IVR BBB-/ Stable
Term Loan 2	-	-	-	FY30	10.33	IVR BBB-/ Stable
Term Loan 3	-	-	-	FY29	3.67	IVR BBB-/ Stable
Term Loan 4	-	-	-	FY29	1.00	IVR BBB-/ Stable
GECL 1	-	-	-	FY25	0.26	IVR BBB-/ Stable
GECL 2	-	-	-	FY27	4.24	IVR BBB-/ Stable
Cash Credit 1	-	-	-	-	14.80	IVR BBB-/ Stable
Cash Credit 2	-	-	-	-	10.00	IVR BBB-/ Stable
PC/PCFC/FDB/FBE/BRD	-	-	-	-	34.00*	IVR A3
Bank Guarantee	-	-	-	-	6.50**	IVR A3
ILC	-	-	-	-	8.00	IVR A3

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**one way interchangeability from BG to LC

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-AkarAuto-jan25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.