



## Press Release

### Akar Auto Industries Limited

December 04, 2023

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	58.82 (enhanced from Rs.50.33 crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	39.50 (enhanced from Rs 37.50 crore)	IVR A3 (IVR A three)	Reaffirmed	Simple
<b>Total</b>	<b>98.32</b> <b>(INR Ninety-eight crore and thirty - two lakhs only)</b>			

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The reaffirmation of the ratings assigned to the bank facilities of Akar Auto Industries Limited (AAIL) considers experienced promoters with established track record in business, diversified revenue stream with presence in both domestic and export markets, along with reputed and diversified client base which reduces counterparty and concentration risk to a large extent. Further, ratings also derive strength from significant improvement in scale of operations in FY23 and H1FY24. However, these rating strengths continue to remain partially offset by leveraged capital structure, exposure to intensive competitiveness and cyclicity in the overall auto components industry, foreign exchange fluctuation risk and operations being working capital intensive.



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### Key Rating Sensitivities:

#### Upward factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Effective working capital management with improvement in operating cycle and liquidity.

#### Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators.
- Any further increase in the operating cycle, which may adversely impact the company's liquidity position.

### 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 experience team of professionals.

- **Improvement in the topline and profit during FY23 and H1FY24**

The topline of the company increased to Rs. 367.07 crore in FY23 as against Rs. 270.41 crore in FY22, depicting a y-o-y increase of ~35% on the back of strong demand from players in automotive sector. EBITDA increased to Rs. 22.22 crore in FY23 from Rs.19.20 crore in FY22, however PAT remained on similar levels at 6.90 crore in FY23 in comparison to Rs 6.89 crore in FY22. However, EBITDA margins witnessed a decline by ~100 basis points and stood at 6.05% in FY23 (PY:7.10%) driven by rise in input costs. PAT margin declined to 1.88% in FY23 from 2.54% in FY22, due to decline in EBITDA margins coupled with rise in interest costs. Also, the company achieved a topline of Rs. 185.53 crore in H1FY24 as against Rs. 171.06 crore in H1FY23, registering a y-o-y increase of ~8%. Consequently, EBITDA and PAT increased to Rs. 10.83 crore and Rs 2.62 crore, respectively, in H1FY24 as against Rs. 9.62 crore and Rs. 2.48 crore respectively during the same period in the previous fiscal.



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- **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 accounted for ~20% of its revenue in FY23 and the rest constituted domestic sales. Exports sales of the company moderated in FY23 on account of weak global economic scenario resulting in subdued demand. However, the same was fully offset by robust domestic sales. The countries which AAIL caters to include USA, Netherland, Germany, South Africa, Canada, Italy, Saudi Arabia, UK, Tanzania, Vietnam, Hungary and Poland. AAIL is further looking to diversify the geographical presence by adding more export regions and also tapping into more domestic markets.

- **Reputed and established clientele base**

The company's 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, which reduces counterparty risk to an extent. By virtue of its long presence, AAIL has successfully established relationships with reputed companies in automobile sector which helps the firm to get repeated orders.

### Key Rating Weaknesses

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

The company's adjusted net worth as on March 31, 2023, 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.44.49 crore as on March 31, 2023, compared with Rs. 37.41 crore as on March 31, 2022. The adjusted overall gearing ratio was 1.35x as on March 31, 2023, and the same improved from levels of 1.78x as on March 31, 2022, driven by accretion of profit to net worth and scheduled repayment of term debts. Further, total indebtedness as measured by TOL/TNW was on similar line at 3.20x as on March 31, 2023, compared with 3.24x as on March 31, 2022. The interest coverage ratio remained adequate at 2.21x as on March 31, 2023 (2.39x as on March 31, 2022), debt service coverage ratio was 1.29 times in FY23 (PY:1.27 times) and Total debt/GCA was 5.80 years in FY23 (6.33 years in FY22).

- **Working capital intensive nature of operations**



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Being in auto ancillary industry, the operations of the company are working capital intensive in nature. Despite a moderation in operating cycle to 72 days in FY23 from 103 days in FY22, the same remains elongated, due to high inventory days of 84 days in FY23. Furthermore, the working capital limits utilized at~90%. Going forward, effective working capital management with sustained improvement in operating cycle will be a key rating factor.

- **Intense competition in automotive component industry thus exerting pressure on 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 cyclicity inherent in auto industry**

The company's business is susceptible to inherent cyclicity in the automotive industry, linked to the performance of the economy.

- **Exposure to foreign exchange fluctuation risks**

The company derives 20%- 30% of its revenues from exports, with major country being USA. These exports expose the company to regulatory risk arising from changes in other countries' procurement policies and forex fluctuation risk. To mitigate the risk, the forex exposure is almost fully hedged by forward contracts.



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### Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Criteria for rating outlook](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

### **Liquidity - Adequate**

The liquidity position of Akar Auto Industries Limited is adequate marked by its expected gross cash accruals as against debt obligations from FY24 to FY26. At the same time, the company's bank limits are utilized to the extent of ~91% on an average for the period ended September 2023 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	31-03-2022	31-03-2023	H1 FY23	H1 FY24
	Audited	Audited	Unaudited	Unaudited
Total Operating Income	270.41	367.07	171.06	185.53
EBITDA	19.20	22.22	9.62	10.83
PAT	6.89	6.90	2.48	2.62
Total Debt	66.45	59.85	63.38	61.27
Tangible Net worth	37.41	44.49	34.96	42.18
EBITDA Margin (%)	7.10	6.05	5.63	5.83
PAT Margin (%)	2.54	1.88	1.45	1.41
Overall Gearing Ratio (x)	1.78	1.35	1.81	1.45

\*As per Infomerics' Standards

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**



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Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (November 4, 2022)	Date(s) & Rating(s) assigned in 2021-22 (March 3, 2022)	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	18.96	IVR BBB-/Stable	IVR BBB-/Stable	IVR BB+/Stable	-
2.	WCDL	Long Term	-	-	-	IVR BB+/Stable	-
3.	GECL	Long Term	9.06	IVR BBB-/Stable	IVR BBB-/Stable	IVR BB+/Stable	-
4.	Cash Credit Limits	Long Term	30.80	IVR BBB-/Stable	IVR BBB-/Stable	IVR BB+/Stable	-
5.	Packing Credit	Short Term	-	-	-	IVR A4+	-
6.	FDB/FBE/BRD	Short Term	-	-	-	IVR A4+	-
7.	PC/PCFC/FDB/FBE/BRD*	Short Term	25.00	IVR A3	IVR A3	-	-
8.	ILC	Short Term	8.00	IVR A3	IVR A3	IVR A4+	-
9.	Bank Guarantee**	Short Term	6.50	IVR A3	IVR A3	IVR A4+	-
10.	Unallocated Limits	Long/Short Term	-	-	-	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.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	FY26	3.66	IVR BBB-/ Stable
Term Loan 2	-	-	FY30	11.30	IVR BBB-/ Stable
Term Loan 3	-	-	FY29	4.00	IVR BBB-/ Stable
GECL 1	-	-	FY25	3.71	IVR BBB-/ Stable
GECL 2	-	-	FY27	5.35	IVR BBB-/ Stable
Cash Credit 1	-	-	-	20.80	IVR BBB-/ Stable
Cash Credit 2	-	-	-	10.00	IVR BBB-/ Stable
PC/PCFC/FDB/FBE/BRD*	-	-	-	25.00	IVR A3
Bank Guarantee**	-	-	-	6.50	IVR A3
ILC	-	-	-	8.00	IVR A3

\*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

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-AkarAuto-dec23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** 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](http://www.infomerics.com)