

Press Release

Best Koki Automotive Private Limited

April 10, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 59.00 Cr. (Enhanced from Rs. 29.64 crore)
Long Term Rating	SMERA BBB+/Stable (Reaffirmed)
Short Term Rating	SMERA A2 (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of **'SMERA BBB+' (read as SMERA triple B plus)** and reaffirmed the short term rating of **'SMERA A2' (read as SMERA A two)** on the Rs.19.00 crore bank facilities of Best Koki Automotive Private Limited (BKAPL). SMERA has also assigned long term rating to **'SMERA BBB+' (read as SMERA triple B plus)** and short term rating of **'SMERA A2' (read as SMERA A two)** on the Rs.40.00 crore bank facilities of BKAPL. The outlook is **'Stable'**.

The ratings continue to derive support from the experienced management and healthy financial risk profile. The ratings are further supported by the continuous growth in revenue while maintaining stable profitability and comfortable liquidity position. However, the ratings are constrained by risks related to the company's major debt-funded capex plan. The ratings factor in the high dependence on the auto sector and intense competition in the auto components industry.

BKAPL, incorporated in 2008, is a Gurgaon-based company engaged in the manufacture of automotive transmission systems such as shift towers, shift forks and shafts. BKAPL is a joint venture between India Best Auto Limited (BAL) and Germany-based, Koki Technik Transmission Systems Gmbh (KTT) with each having 50 percent shareholding. BKAPL derives around 94 percent revenue from the domestic market and the balance from export to Original Equipment Manufacturers (OEM's) in Brazil and Germany.

Key rating drivers

Strengths

Established track record and long standing experience of promoters

BKAPL has established track record of more than a decade in the auto ancillary industry. The company also benefits from the extensive experience of its management - the Directors, Mr. S. K. Jain, Mr. Nitesh Jain, Mr. Nitin Jain, Mr. Carsten Fuchs, Mr. Daniel Sonntag and Mr. Ralph Rumberg. BAL and KTT have been in the auto ancillary industry for 17 years and 15 years respectively. The management also has experience through associate company, Madhusudan Auto Limited, since 1991. The company is engaged in the manufacturing of automotive parts for the passenger car segment and benefits from its association with Koki Technik Transmission Systems Gmbh for procurement and technology support. The senior management is ably supported by a competent second line of management.

The established presence and experienced management has helped the company maintain long standing relations with reputed clients including Maruti Suzuki India Limited, Mahindra & Mahindra Limited and Renault India Private Limited.

SMERA believes that going forward the company will continue to benefit from the extensive experience of its promoters and established presence in the automotive industry.

Long standing relations with customers

The company mainly caters to domestic OEM's and multinational automotive companies. These include Maruti Suzuki India Limited, Mahindra & Mahindra Limited and Renault India Private Limited. The operating revenue increased from Rs.54.06 crore in FY2013 to Rs.116.45 crore in FY2017.

Healthy financial risk profile

The financial risk profile continues to remain healthy marked by tangible networth of Rs.45.60 crore as on 31 March, 2017 as against Rs.42.65 crore in the previous year. The debt-to-equity stood at 0.53 times as on 31 March, 2017 as against 0.57 times as on 31 March, 2016. The Interest Coverage Ratio stood at 6.38 times for FY2017 as against 5.27 times for FY2016. The Debt Service Coverage Ratio (DSCR) stood at 1.65 times for FY2017 and 1.64 times for FY2016. The Return of Capital Employed stood at 15.25 percent in FY2017 and 15.71 percent in FY2016. The Total outside Liabilities to Tangible Networth stood at 1.56 times as on 31 March, 2017 as compared to 1.24 times in the previous year. The Net Cash Accruals increased from Rs.7.82 crore in FY2016 to Rs.10.21 crore in FY2017. The Net Cash Accruals to Total Debt stood at 0.43 times for FY2017 as against 0.32 times in the previous year. The company has ongoing capacity expansion plan which is majorly funded through debt. However, the same is not expected to have adverse impact on the financial risk profile.

Going forward, SMERA believes that the company will maintain its financial risk profile on the back of continuous improvement in net cash accruals and moderate working capital requirement.

Weaknesses

Working capital intensive operations

The operations are working capital intensive with Gross Current Assets (GCA) of 213 days for FY2017 as against 200 days in the previous year. This is mainly on account of increase in inventory days of 103 and debtor days of 61 for FY2017 as compared to 100 and 60 days respectively for FY2016. The GCA days are also stretched on account of increase in other current assets (mainly includes other receivables and balances to be maintained with the government). However, the liquidity position of the company remains comfortable with average consolidated cash credit limit utilisation at around 72 percent for the last six months ended 28 Feb, 2018.

Project implementation risk

The company needs to undertake continuous capacity expansion to meet the increasing customer orders. Plans are on to expand capacity to set up an assembly line at a cost of Rs.17 crore to be funded by term loan of Rs.14.00 crore and internal accruals of Rs.3.00 crore. BKAPL has incurred Rs.9.54 crore towards the project as on date through a term loan of Rs.6.58 crore and internal accruals. The project is expected to be completed by September, 2018. The debt funded capex plan is not expected to have adverse impact on the company's financial risk profile. The completion of the project within the estimated time and cost will be key rating sensitivity factor.

Cyclicality in demand, volatility in raw material prices, high dependence on OEM

The industry continues to face pricing pressures and cyclical demand in the original equipment manufacturer (OEM) market. Volatility in the prices of commodities which form part of the key raw materials, such as steel, aluminum, and copper will be key determinants in operating profitability. However, in the recent past with improving industrial production, vehicle sales have seen uptick in demand. If the trend continues, demand for auto components will get a boost in the short to medium term.

Highly competitive automotive industry

The company faces intense competition in the highly fragmented and competitive automotive industry with the presence of large number of players.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Best Koki Automotive Private Limited for arriving at the rating.

Outlook: Stable

SMERA believes that BKAPL will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the management in the industry and established relations with customers. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of elongation of working capital cycle or higher than expected debt funded capex undertaken, resulting in decline in the financial risk profile.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

About the Rated Entity –Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	116.45	101.51	87.30
EBITDA	Rs. Cr.	15.26	12.27	11.02
PAT	Rs. Cr.	5.58	4.63	5.26
EBITDA Margin	(%)	13.11	12.09	12.62
PAT Margin	(%)	4.79	4.56	6.02
ROCE	(%)	15.25	15.71	21.58
Total Debt/Tangible Net Worth	Times	0.53	0.57	0.49
PBDIT/Interest	Times	6.38	5.27	9.73
Total Debt/PBDIT	Times	1.55	1.95	1.33
Gross Current Assets (Days)	Days	213	200	224

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Facilities	Term	Amount (Rs. Crore)	Ratings/ Outlook
6 May, 2015	Cash Credit	Long Term	2.50	SMERA BBB+/Stable (Assigned)
	Term Loan	Long Term	12.14	SMERA BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	5.00	SMERA A2 (Assigned)

2 Aug, 2016	Cash Credit	Long Term	2.50	SMERA BBB+/Stable (Suspended)
	Term Loan	Long Term	12.14	SMERA BBB+/Stable (Suspended)
	Bank Guarantee	Short Term	5.00	SMERA A2 (Suspended)
21 Nov, 2016	Cash Credit	Long Term	2.50	SMERA BBB+/Stable (Suspension Revoked; Rating Assigned)
	Term Loan	Long Term	22.14 (enhanced from Rs. 12.14 crore)	SMERA BBB+/Stable (Suspension Revoked; Rating Assigned)
	Bank Guarantee	Short Term	5.00	SMERA A2 (Suspension Revoked; Rating Assigned)
12 Mar, 2018	Cash Credit	Long Term	2.50	SMERA BBB+/Stable Issuer not co- operating*
	Term Loan	Long Term	22.14	SMERA BBB+/Stable Issuer not co- operating*
	Bank Guarantee	Short Term	5.00	SMERA A2 Issuer not co- operating*

*The issuer did not co-operate; Based on best available information.

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit I	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BBB+/Stable (Reaffirmed)
Cash Credit II	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB+/Stable (Assigned)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	13.50 (reduced from Rs. 22.14 crore)	SMERA BBB+/Stable (Reaffirmed)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00 (reduced from Rs. 5.00 crore)	SMERA A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2 (Assigned)

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

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Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
<p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 Email: suman.chowdhury@smera.in</p> <p>Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141321 Email: shashikala.hegde@smera.in</p>	<p>Varsha Bist Manager- Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in</p>

ABOUT SMERA

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