

Press Release

Best Koki Automotive Private Limited

November 12, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 59.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Negative (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 59.00 crore bank facilities of Best Koki Automotive Private Limited. The outlook is '**Negative**'.

BKAPL, incorporated in 2008, is a Gurgaon-based company engaged in manufacturing of various kinds of automotive transmission systems such as shift tower, shift fork and shaft. BKAPL is a joint venture between India based, Best Auto Limited (BAL) and Germany-based, Koki Technik Transmission Systems GmbH (KTT) with each having 50 percent shareholding. BKA mainly supply its products in both the domestic and overseas market to Original Equipment Manufacturers (OEM's).

Analytical Approach

Acuite has considered the standalone business and financial risk profile of BKAPL to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record and long standing experience of promoters

BKAPL has an 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. Nifin Jain, Mr. Carsten Fuchs, Mr. Daniel Sonntag and Mr. Ralph Rumberg. BAL and KTT have been in the auto ancillary industry for 18 years and 16 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 extensive experience of the promoters is also reflected through its healthy revenue growth rate. The revenues of the company have grown at a CAGR of XX per cent over the last three/four years through FY 2019.

The established presence and experienced management has helped the company to maintain long standing relations with reputed clients including Maruti Suzuki India Limited, Mahindra & Mahindra Limited and Renault India Private Limited. Acuite believes that the company will continue to benefit through the established relationships with its customers over medium term.

• Healthy financial risk profile

The financial risk profile continues to remain healthy marked by tangible net worth of Rs.57.69 crore as on 31 March, 2019 (Provisional) as against Rs.53.18 crore in the previous year. The net worth levels have seen significant improvement over the last three years through FY 2019 on account of healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.77 and 1.91 times as on March 31, 2018. The leverage levels continue to remain low at around 0.66 times as on March 31, 2019 (Provisional). The company incurred capex of Rs.50.80 crore over the last three years to expand its scale of operations. BKAPL's moderate cash accruals to the tune of about Rs.13.78 crores have supported in

minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.66 times and Rs.57.69 crores as on March 31, 2019 (Provisional). The company however is witnessing challenging business environment on account of recent slowdown in automotive sales. The same is also reflected through subdued sales performance in the first half of FY 2020. BKAPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.12.21 crores - 12.70 crores which are comfortable to service its repayment obligations while supporting about 40 per cent of the routine capex. As a result, Acuite believes that the gearing is likely to remain low at around 0.54 times as on March 31, 2020 on back of absence of any major debt funded capex plan.

Weaknesses

• Working capital intensive nature of operations

The operations are working capital intensive with Gross Current Assets (GCA) of 207 days for FY2019 (Provisional) as against 236 days in the previous year. The company imports a significant portion of its raw material requirements and therefore maintains an inventory of around 106 days. The company also maintains 21 days of finished goods of inventory in order to cater to spot orders from customers. Further, it allows a credit period of 60 days to its customers. 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 utilization at around ~42 percent for the last six months ended 30th September, 2019.

• Highly fragmented and competitive nature of the industry

The rating continues to reflect the highly competitive and fragmented nature of the automotive components industry. Consequently, BKAPL's operating profit margin continued to remain modest at 2.79 per cent in FY2019 (Provisional) as compared to 3.54 per cent in FY2018. Acuite believes that sustained improvement in BKAPL's profitability margins over the medium term shall be instrumental in improving the company's business risk profile.

Rating Sensitivity Factor

- Drop in profitability due to raw material price fluctuations.
- Significant decline in revenue due to slowdown in the automobile industry.

Material Covenants

- Fixed asset coverage ratio to be maintained above 1.50 times.
- Debt service coverage ratio to be maintained above 1.25 times
- Interest coverage ratio to be maintained above 3.00 times.
- Gearing ratio to be maintained below 3.00 times.

Liquidity position: Adequate

Company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. BKAPL generated cash accruals of Rs.13.78 crore in FY2019 (Provisional) as against of debt maturity obligation of Rs.10.40 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.12.21 crore to Rs.13.45 crore during FY2020-22 against as against CPLTD of Rs.8.50 crore for each year in FY2020-FY2021 and Rs.5.88 crore for FY2022. The company's working capital operations are moderate marked by gross current asset (GCA) days of 207 days in FY2019 (Provisional) as against 236 for FY2018. Company maintains unencumbered cash and bank balances of Rs.3.83 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.21 times as on 31 March 2019 (Provisional). The liquidity position of the company remains comfortable with average consolidated cash credit limit utilization at around ~42 percent for the last six months ended 30th September, 2019.

Outlook: Negative

Acuite believes that the company's outlook will remain 'Negative' over the medium term on account of decline in revenues and slowdown in the automobile industry. The rating may be downgraded in case of sustained decline in operating performance and deterioration in working capital operations. Conversely, the outlook may be revised to 'Stable' if the company registers significant improvement in operating performance and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	171.41	142.33	116.45
EBITDA	Rs. Cr.	18.49	17.62	15.26
PAT	Rs. Cr.	4.77	5.04	5.58
EBITDA Margin	(%)	10.79	12.38	13.11
PAT Margin	(%)	2.79	3.54	4.79
ROCE	(%)	9.58	12.88	15.25
Total Debt/Tangible Net Worth	Times	0.66	0.77	0.53
PBDIT/Interest	Times	5.26	5.31	6.38
Total Debt/PBDIT	Times	2.07	2.34	1.55
Gross Current Assets (Days)	Days	207	236	213

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
27-June-2019	Cash Credit	Long term	2.50	ACUITE BBB+ Issuer not co-operating*
	Term Loan	Long term	13.50	ACUITE BBB+ Issuer not co-operating*
	Cash Credit	Long term	5.00	ACUITE BBB+ Issuer not co-operating*
	Term Loan	Long term	30.00	ACUITE BBB+ Issuer not co-operating*
	Bank Guarantee	Short term	3.00	ACUITE A2 Issuer not co-operating*
	Letter of Credit	Short term	5.00	ACUITE A2 Issuer not co-operating*
10-April-2018	Cash Credit	Long term	2.50	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long term	13.50	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long term	5.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long term	30.00	ACUITE BBB+/Stable

				(Assigned)
	Bank Guarantee	Short term	3.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short term	5.00	ACUITE A2 (Assigned)
12-March-2018	Cash Credit	Long term	2.50	ACUITE BBB+ Issuer not co-operating*
	Term Loan	Long term	22.14	ACUITE BBB+ Issuer not co-operating*
	Bank Guarantee	Short term	5.00	ACUITE A2 Issuer not co-operating*
21-Nov-2016	Cash Credit	Long term	2.50	ACUITE BBB+/Stable Suspension revoked : Rating assigned
	Term Loan	Long term	22.14	ACUITE BBB+/Stable Suspension revoked : Rating assigned
	Bank Guarantee	Short term	5.00	ACUITE A2 Suspension revoked : Rating assigned

***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	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB+/ Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB+/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+/ Negative (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/ Negative (Reaffirmed)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB+/ Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/ Negative (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB+/ Negative (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Aditya Singh Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuите.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

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