

Press Release

Best Koki Automotive Private Limited

December 05, 2022

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	59.00	ACUITE BBB Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	59.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to **"ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB+' (read as ACUITE Triple B plus)** on the Rs. 59.00 Crore bank facilities of Best Koki Automotive Private Limited (BKAPL). The outlook is **'Stable'**.

Rationale for Downgrade

The downgrade in ratings takes into account the deteriorating profitability position of the company because of which company has sustained losses in FY 2021 and FY 2022. EBITDA margin has declined from 11.35% in FY 2020 to 6.19% in FY 2021 and further declined to 3.97% in FY 2022. Due to impact of covid pandemic the scale of operations was affected wherein company witnessed dip in operating income and the revenues have yet not reached pre pandemic levels. However, in the current year company has shown improvement in sales as compared to last year and going forward the revenue growth and improvement in profitability profile will remain key rating factors.

About the Company

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 Private Limited (BAPL) and Germany-based, Koki Technik Transmission Systems GmbH (KTT) with shareholding of 52.67% and 47.33% respectively. 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 the 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. Nitin Jain, Mr. Carsten Fuchs, Mr. Daniel Sonntag and Mr. Ralph Rumberg. BAL and KTT have been in the auto ancillary industry for 20 years and 18 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 to maintain long standing relations with reputed clients including Maruti Suzuki India Limited, Mahindra & Mahindra Limited, Fiat Automobiles and Renault India Private Limited. Acuité believes that the company will continue to benefit through the established relationships with its customers over medium term.

Financial Risk Profile

Company's financial risk profile is moderate marked by healthy net worth and average debt protection metrics. Company's tangible net worth has declined from Rs. 64.10 Cr in FY 2020 to Rs. 59.97 Cr in FY 2021 and further declined to Rs. 55.60 Cr in FY 2022 due to losses sustained in FY 2021 and FY 2022. Total debt of Rs. 21.11 Cr in FY 2022 consists of Rs. 0.78 Cr of term loan, Rs. 18.00 Cr of working capital borrowings and Rs. 2.33 Cr of CPLTD. Gearing (Debt to Equity) has remained at 0.39 and 0.38 times in FY 2021 and FY 2022 respectively. DEBT-EBITDA has moderated year on year from 1.95 times in FY 2020 to 2.57 times in FY 2021 and further moderated to 3.36 times in FY 2022 due to decline in operating profits. DSCR moderated from 1.25 times in FY 2020 to 0.94 times in FY 2021 and stood at 1.00 times in FY 2022. Company is planning to execute debt funded capex in the coming years but despite the addition of debt financial risk profile is expected to remain moderate in the coming times.

Weaknesses

Intensive working capital management of operations

Company's operations are working capital intensive marked by GCA days of 195 in FY 2022. High GCA days is a result of high inventory and debtor period. Inventory period although moderated but remained high at 111 days in FY 2022 as against 120 days in FY 2021. High inventory is because of imported portion of raw material for which the company maintains at least 3 months of imported raw material inventory since transit of these stocks take around 2-3 months. Debtor days stood at 75 days in FY 2022 as against 98 days in FY 2021. Creditor period has increased year on year from 156 days in FY 2020 to 197 days in FY 2021 and further increased to 223 days in FY 2022. Creditors have increased in FY 2021 due to delayed payments to suppliers because of delayed collections from customers. Since operations were affected by covid 19 pandemic collections from customers were slow and consequently company delayed payments to suppliers. Creditors have increased in FY 2022 due to capex creditors coupled with delayed payments to suppliers. Company has done capex wherein they have purchased machinery hence the creditors for the machineries is the reason for further increase in creditors in FY 2022. However, working capital limit utilization has remained comfortable at 9.20% in the last 6 months between April 2022 and September 2022.

Decline in revenue and profitability

Company's revenue has declined from 156.05 Cr in FY 2020 (Audited) to Rs. 146.69 Cr in FY 2021 (Audited) due to impact of covid 19 pandemic. In FY 2021 there was impact of around 6 months wherein 2-3 months' production was affected and another 3 months it took for OEMs who are the customers for the company to increase production volume hence the decline in revenues in FY 2021. Revenue improved marginally by 0.98% to Rs. 148.13 Cr in FY 2022 (Audited) because of the impact of second wave of covid pandemic. In second wave operations were affected for 2-3 months which affected the growth in revenues in FY 2022.

Profitability has declined since FY 2020. EBITDA margin has declined from 11.35% in FY 2020 to 6.19% in FY 2021. In first wave of covid raw materials ordered for production was stuck in transit and the delay led to increase in cost which the company was not able to pass on to the customers hence due to increased raw material costs company sustained decline in EBITDA margins. EBITDA margin further declined to 3.97% in FY 2022. Royalty charge was paid in FY 2022 to Koki Technik of Rs. 1.31 Cr which was not paid in FY 2020 and 2021 due to mutual

understanding considering impact of Covid 19. Repair and maintenance cost increased by 76% in FY 2022 as against 2021 since repairs were put on hold in FY 21 to maintain expenses in the face of covid. Increase in both of these components led to increase in other manufacturing cost in FY 2022. Employee cost increased in FY 2022. Since company did not give any increment in salaries in FY 2020 and 2021 to control costs, the increase in salaries were due because of which employee cost has increased in FY 2022 which had to be incurred to retain the employees. Company has 70% of employees on roll and 30% on contract basis. These were the components that led to further decline in EBITDA margin in FY 2022 despite easing of raw material cost.

Highly fragmented and competitive nature of the industry

The rating continues to reflect the highly competitive and fragmented nature of the automotive components industry. Acuité 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 Sensitivities

- Profitability
- Working capital management

Material covenants

None.

Liquidity Position

Adequate

Company has adequate liquidity position. In FY 2022 company has generated net cash accruals of Rs. 5.90 Cr against maturing debt obligation of Rs. 5.87 Cr. Unencumbered cash and bank position stood at Rs. 2.48 Cr in FY 2022. Company has fixed deposits investments of Rs. 9.22 Cr out of which Rs. 2.5 Cr is lien marked and the remaining amount of Rs. 6.72 Cr is unencumbered.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability level and margin, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than expected working capital requirements.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	148.13	146.69
PAT	Rs. Cr.	(4.56)	(4.30)
PAT Margin	(%)	(3.08)	(2.93)
Total Debt/Tangible Net Worth	Times	0.38	0.39
PBDIT/Interest	Times	3.59	3.11

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Sep 2021	Proposed Bank Facility	Long Term	22.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Long Term	5.00	ACUITE A2 (Withdrawn)
	Cash Credit	Long Term	15.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	2.50	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	6.00	ACUITE BBB+ (Withdrawn)
	Bank Guarantee	Long Term	3.00	ACUITE A2 (Withdrawn)
	Term Loan	Long Term	7.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	10.00	ACUITE BBB+ (Withdrawn)
	Term Loan	Long Term	12.00	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	15.00	ACUITE BBB+ Stable (Assigned)
12 Nov 2019	Term Loan	Long Term	6.00	ACUITE BBB+ Negative (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB+ Negative (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	2.50	ACUITE BBB+ Negative (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB+ Negative (Reaffirmed)

	Proposed Bank Facility	Long Term	0.50	ACUITE BBB+ Negative (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB+ Negative (Assigned)
	Term Loan	Long Term	12.00	ACUITE BBB+ Negative (Reaffirmed)
27 Jun 2019	Term Loan	Long Term	13.50	ACUITE BBB+ (Issuer not co-operating*)
	Cash Credit	Long Term	2.50	ACUITE BBB+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	3.00	ACUITE A2 (Issuer not co-operating*)
	Term Loan	Long Term	30.00	ACUITE BBB+ (Issuer not co-operating*)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BBB+ (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
CITI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Downgraded
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BBB Stable Downgraded
CITI Bank	Not Applicable	Term Loan	Mar 1 2021 12:00AM	7.50	Apr 29 2023 12:00AM	Simple	7.00	ACUITE BBB Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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