Press Release

Avlight Automotives Private Limited (AAPL)

February 23, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.30.00 Cr
Long Term Rating	SMERA BBB-/Stable (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BBB-' (read as SMERA triple B minus)** on the Rs.30.00 cr long term bank facilities of Avlight Automotives Private Limited (AAPL). The outlook is **'Stable'.**

Analytical approach: SMERA has taken a consolidated view of the business and financial risk profiles of AAPL with that of Avlight Auto Components Private Limited (AACPL). The consolidation factors in the common management and customers, similarity of industries and inter-company shareholding. These entities have been together referred to as the 'Avlight Group' (AG).

AAPL is engaged in the manufacturing of moulds and dies, automotive lighting equipments and plastic moulded components. AACPL manufactures wheel assemblies for two-wheelers.

The rating reaffirmation continues to draw support from the experienced management and comfortable financial risk profile of AG marked by prudent capital structure and healthy debt protection metrics. The rating, however, continues to remain constrained by the competitive landscape surrounding the automotive components industry. The rating further continues to reflect the modest profitability indicators of AG.

List of key rating drivers and their detailed description

Strengths:

Experienced management and long track-record of operations: AG continues to benefit from its experienced management. The key promoters, Mr. Anil Anand, Managing Director and Mr. Rajan Sharma, Joint Managing Director, possess more than three decades of experience in the aforementioned line of business. SMERA believes that AG will continue to leverage the promoters' longstanding relationship with customers to achieve sustainable growth in its operating income.

Comfortable financial risk profile: The rating reaffirmation factors in the prudent gearing of the group which stood at 1.39 times as on 31 March, 2016 as compared to 1.20 times as on 31 March, 2015. Going forward, SMERA expects AG's debt-equity ratio to remain comfortable over the medium term on account of healthy internal accruals of the company.

The rating continues to be supported by the comfortable interest coverage of the group. The interest coverage ratio of AG stood at 4.73 times in FY2016 as compared to 5.77 times in FY2015. Notwithstanding the moderation in debt service coverage ratio (DSCR) to 1.17 times in FY2016 from 2.55 times in FY2015, SMERA expects significant improvement in AG's DSCR over the medium term on account of decline in debt servicing requirements of the group backed by increase in repayment tenure.

Healthy liquidity position: The rating continues to be supported by the comfortable liquidity position of AG marked by low average bank limit utilisation of 86.53 per cent for the six months ended September, 2016. SMERA believes that AG will continue to benefit from its efficient working capital management marked by inventory days of 23 in FY2016 (23 days in FY2015) and average receivable days of 27 in FY2016 (22 days in FY2015). AG's ability to maintain headroom in its working capital limits over the medium term shall be a rating sensitivity factor.

Weaknesses:

Competitive nature of the industry: The rating continues to reflect the highly competitive and fragmented nature of the automotive components industry. Consequently, AG's operating profit margin continued to remain modest at 3.54 per cent in FY2016 as compared to 2.38 per cent in FY2015. SMERA believes that sustained improvement in AG's profitability margins over the medium term shall be instrumental in improving the group's credit risk profile.

Decline in consolidated operating income: SMERA takes note of the decline in consolidated operating income of the group to Rs. 267.11 cr in FY2016 as compared to Rs. 287.38 cr in FY2015. This was mainly attributed to decline in the standalone operating income of AACPL to Rs. 194.33 cr in FY2016 from Rs. 232.49 cr in FY2015. However, AAPL continued to report growth in its standalone operating income to Rs. 72.78 cr in FY2016 from Rs. 54.89 cr in FY2015. AG's ability to increase its scale of operations while maintaining its profitability margins shall be a key credit monitorable. AG's operating income shall remain susceptible to the inherent cyclicality of the automobile industry. Any lower than expected offtake from customers will result in decline in operating cash flows and impact the credit matrices of the group.

Applicable Criteria

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

Outlook: Stable

AG is expected to maintain a stable outlook on account of its experienced management, established relationship with customers and prudent financial risk profile. The outlook may be revised to 'Positive' in case of sustained increase in scale of operations while improving its profit margins. Conversely, the outlook may be revised to 'Negative' in case of decline in operating income and/or higher than anticipated debt-funded capital expenditure.

About the Group

The Avlight Group consists of two entities – AAPL and AACPL. AAPL is engaged in the manufacturing of automotive components for Yamaha India, Honda, Calsonic Kansei Motherson among others while AACPL is the tier I supplier of two-wheeler wheel assemblies with 100 per cent sales to Yamaha. The group reported consolidated profit before tax (PBT) of Rs. 5.13 cr on a consolidated operating income of Rs. 267.11 cr in FY2015-16. In FY2014-15, the group registered consolidated operating income of Rs. 287.38 cr on a consolidated PBT of 4.27 cr.

About the Rated Entity

AAPL was incorporated as a public limited company in 1996 by Mr. Rajan Sharma and Mr. Anil Anand. The company is engaged in the manufacturing of automotive lighting equipment and plastic moulded products such as lights, electrical accessories at Gurgaon and Chennai.

The company reported profit before tax (PBT) of Rs.2.37 cr on total operating income of Rs. 72.78 cr in FY2015–16, as compared to PBT of Rs. 1.33 cr on operating income of Rs. 54.89 cr in FY2014–15.

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

Any other information: N.A.

Rating History for the last three years

Facilities	Scale	FY2017		FY2016		FY2015		FY2014	
		Amount Rs. Cr	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	6.00 (Enhanced from 4.00)	SMERA BBB- /Stable (Reaffirmed)	16 Oct, 2015	SMERA BBB- /Stable (Assigned)	-	-	-	-
Term Loan	LT	19.10 (Enhanced from 12.22)	SMERA BBB- /Stable (Reaffirmed)	16 Oct, 2015	SMERA BBB- /Stable (Assigned)	-	-	-	-
Working Capital Demand Loan	LT	-	-	16 Oct, 2015	SMERA BBB- /Stable (Assigned)				
Proposed fund based facilities	LT	4.90 (Reduced from 12.78)	SMERA BBB- /Stable (Reaffirmed)	16 Oct, 2015	SMERA BBB- /Stable (Assigned)	-	-	-	-

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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	6.00 (Enhanced from 4.00)	SMERA BBB-/Stable (Reaffirmed)
Term Loan	N.A	N.A	April 2023	19.10 (Enhanced from 12.22)	SMERA BBB-/Stable (Reaffirmed)
Proposed fund based facilities	N.A	N.A	N.A	4.90 (Reduced from 12.78)	SMERA BBB-/Stable (Reaffirmed)

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm
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ABOUT SMERA

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