

Press Release

Avlight Automotives Private Limited

April 3, 2018

Rating Reaffirmed



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 30.00 Cr. |
| Long Term Rating | SMERA BBB- / Negative (Rating Reaffirmed and outlook revised) |

**Refer annexure for details*

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

Avlight Automotives Private Limited (AAPL), is a Gurgaon-based company promoted by Mr. Anil Anand and Mr. Rajan Sharma. Part of the Avlight Group, the company is engaged in the manufacturing of automotive components for Yamaha India, Honda, Calsonic Kansei Motherson among others. Avlight Auto Components Private Limited (AACPL), a group company, is the tier-I supplier of wheel assemblies (for two-wheelers) to Yamaha.

Analytical approach:

SMERA has taken a consolidated view of the business and financial risk profiles of AAPL and AACPL owing to the common management, similarities in the lines of business and inter-company shareholding. The entities are together referred to as the 'Avlight Group' (AG).

Key rating drivers

Strengths

Experienced management and long track-record of operations

AG continues to benefit from its experienced management. 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 relation with customers to achieve sustainable growth in its operating income.

Comfortable financial risk profile

The company has comfortable financial risk profile marked by net worth of Rs.10.82 crore as on 31 March, 2017 compared to Rs.10.74 crore as on 31 March, 2016. The gearing stood at 1.43 times as on 31 March, 2017 as against 1.24 times as on 31 March, 2016. The total debt of Rs.15.42 crore comprises term loan of Rs.6.33 crore from banks, working capital funds of Rs.5.95 crore and unsecured loans from related parties of Rs.3.14 crore as on 31 March, 2017. The Interest Coverage Ratio stood at 4.32 times in FY2017 as against 5.06 times in FY2016. The Debt Service Coverage Ratio stood at 1.48 times in FY2017 as against 1.65 times in the previous

year. The Net Cash Accruals stood at Rs.6.31 crore as against repayment obligation of Rs.1.49 crore in FY2017.

Weaknesses

Exposure to the inherent cyclicity in the industry

The rating factors in the highly competitive and fragmented nature of the automotive components industry. Consequently, AG's operating profit margin continued to remain modest at 4.02 per cent in FY2017 as compared to 3.54 per cent in FY2016. 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. Moreover, the prospects of the group are linked to the overall growth of Yamaha Motor Company as AACPL sells 100 per cent of its products to Yamaha.

Decline in consolidated operating income

SMERA takes note of the decline in consolidated operating income of the group to Rs.257.88 crore in FY2017 from Rs.267.11 crore in FY2016. This was mainly attributed to decline in the standalone operating income of AACPL to Rs.185.21 crore in FY2017 from Rs.194.33 crore in FY2016. However, AAPL's revenue was stable. The standalone operating income stood at Rs.72.67 crore in FY2017 from Rs.72.78 crore in FY2016. 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 cyclicity 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.

Outlook – Negative

SMERA believes that the outlook of AAPL will remain 'Negative' over the medium term due to continuous decline in key financial parameters. The rating may be downgraded in case of sustained decline in the revenue profile leading to low profitability and deterioration in the financial risk profile. Conversely, the outlook may be revised to 'Stable' if the company registers significant improvement in revenue while maintaining profitability.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 257.88 | 267.11 | 287.38 |
| EBITDA | Rs. Cr. | 10.36 | 9.45 | 6.84 |
| PAT | Rs. Cr. | 3.37 | 1.72 | 3.05 |
| EBITDA Margin | (%) | 4.02 | 3.54 | 2.38 |
| PAT Margin | (%) | 1.31 | 0.65 | 1.06 |
| ROCE | (%) | 26.69 | 27.88 | 26.06 |
| Total Debt/Tangible Net Worth | Times | 1.43 | 1.24 | 1.54 |
| PBDIT/Interest | Times | 4.32 | 5.06 | 6.47 |
| Total Debt/PBDIT | Times | 1.41 | 1.32 | 1.73 |
| Gross Current Assets (Days) | Days | 62 | 60 | 58 |

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Consolidation- <https://www.smera.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|-------------|--------------------------------------|-----------|--------------------|----------------------------------|
| 23-Feb-2017 | Cash Credit | Long Term | 6.00 | SMERA BBB- / Stable (Reaffirmed) |
| | Term Loan | Long Term | 19.10 | SMERA BBB- / Stable (Reaffirmed) |
| | Proposed Working Capital Demand Loan | Long Term | 4.90 | SMERA BBB- / Stable (Reaffirmed) |
| 16-Oct-2015 | Cash Credit | Long Term | 4.00 | SMERA BBB- / Stable (Assigned) |
| | Term Loan | Long Term | 12.22 | SMERA BBB- / Stable (Assigned) |
| | Working Capital Demand Loan | Long Term | 1.00 | SMERA BBB- / Stable (Assigned) |
| | Proposed Working Capital Demand Loan | Long Term | 12.78 | 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. Crore) | Ratings/Outlook |
|--------------------------------------|------------------|----------------|----------------|-------------------------------|-----------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 6.00 | SMERA BBB- / Negative |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 19.10 | SMERA BBB- / Negative |
| Proposed Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | 4.90 | SMERA BBB- / Negative |

Contacts:

| Analytical | Rating Desk |
|---|--|
| <p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in</p> <p>Aishwarya Phalke, Rating Analyst, Tel: +91-22-6714 1156 Email: aishwarya.phalke@smera.in</p> | <p>Varsha Bist Manager-Rating Desk Tel: 022-67141160 Email: varsha.bist@smera.in</p> |

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.