

Press Release

Devi Auto Components

April 19, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE B+**' (read as ACUITE B 'Plus') on the Rs.16.00 crore bank facilities of Devi Auto Components (DAC). The outlook is '**Stable**'.

About the Firm

Established in 2006 and based in Chennai (Tamil Nadu), Devi Auto Components (DAC) is a partnership firm and managed by Mr. S. Raju and his wife, Mrs. A. Sudhantra Devi as the partners of the firm. DAC is part of the TMS Group which has business interest in various verticals such as Thirumurugan Stores and Sri Lakshmi Trader. DAC is engaged in the business of leasing of commercial space. The commercial space used to lease out was developed by the firm in the Oragadam Industrial Growth Centre (also known as Oragadam Industrial Park) on the 3 acres of land acquired from State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Devi Auto Components (DAC) to arrive at this rating.

Key Rating Drivers

Strengths

- Partners' extensive experience; established track record of operations of group companies**

DAC is a partnership firm with Mr. S. Raju (Managing partner) and his wife, Mrs. A. Sudhantra Devi as the partners of the firm. Mr. S Raju has been part of the day-to-day operations of the firm since its inception in 2006, gaining more than 15 years of experience in the industry. Along with his venture in service industry, Mr. Raju, has gained extensive experience in Indian Agro trading industry through managing "Thirumurugan Stores" and "Sri Lakshmi Trader"; group companies of the firm. TMS Group deals in the export of rice, wheat, sugar, pulses, dal, vegetables to various countries namely Sri Lanka, Malaysia, Singapore, Gulf countries and many more. The extensive experience of the partners is reflected through its established relationship with Hindustan Unilever Limited (HUL), Britannia Limited, ITC Limited, Parle Products Private Limited, Lotte Corporation, The Himalaya Drug Company and many more adding to the list of its reputed customers. Further, the operations of the firm are strengthened by the presence of strong line of mid-level managers. Acuité believes that DAC will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

- Long-term lease contract ensuring stable revenue inflows; capex underway for development of additional commercial building**

In February 2020, DAC has entered into a lease agreement with Rikun Manufacturing Private Limited for a lease term of 9 years. The firm is in process of developing additional commercial spaces on the plot at Oragadam Industrial Park and it is expected to enter into another long term lease contract with the existing lessee with similar rental rates and lease term. The firm is expected to complete a Pre Engineered Building (PEB) with build-up area of 36,500 sq.ft by month of May-June of 2021 and further will be developing an additional industrial shed with build-up area of 66,000 sq.ft. The expected cost for the project is around Rs.13.00 Cr. with major proportion of capital requirement being funded through a proposed term loan of Rs.10.00 Cr. and the further requirements using equity contribution and internal accruals. The project is estimated to be completed by Q4FY2022 and will be operational to contribute towards the total revenue. Acuité believes that the long term nature of agreement along with the capex underway to develop additional commercial buildings will aid in stable revenue inflows to the firm in form of rental collection and

contribute towards sufficient liquidity for subsequent timely repayment of its debt obligations.

Weaknesses

- **Decline in operating income; Deterioration in profitability Margins**

The scale of operations of the firm stood low with stable operating revenue in the range of Rs.1-2 Cr. through the last three years from FY2018-2020. DAC's operating income in FY2020 has decreased by 22.96 percent to Rs.1.46 Cr against Rs.1.89 Cr in FY2019 on account of competition of long term lease contract with ITW India Private Limited in the month of December 2019. Further, PAT margin for the FY2020 has deteriorated to 48.63 percent against 59.07 percent in the previous year. The operating income for the period of April, 2020 to February, 2021 registered is ~Rs.0.73 Cr. Acuité believes that the firm's revenue profile is expected to decline by around 50 percent in FY2021 on account of deterioration in realisations of rent from commercial space due to the agreed lower rental rates per square feet with Rikun Manufacturing private limited in comparison with the former lessee.

- **Below-average financial risk profile**

DAC's financial risk profile is below-average, marked by a modest networth, moderate gearing and below average debt protection metrics. The EBITDA margins of the firm has deteriorated to 95.44 percent in FY2020 against 96.62 percent in FY2019. The deteriorating profitability levels vis-à-vis high finance cost has led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 2.04 times and 1.19 times respectively in FY2020 as against 2.57 and 2.57 times respectively in the previous year.

The net worth of the firm stood at Rs.4.92 Cr. as on 31 March, 2020 as against Rs.3.42 Cr. as on 31 March, 2019. This improvement is on the account of healthy accretion to reserves and increase in capital accounts of the partners. The gearing level (debt-equity) stands average at 1.54 times as on 31 March, 2020 as against 2.32 times as on 31 March, 2019, the improvement is on the account of repayment of term loan and increase in capital accounts of partners. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 1.61 times as on 31 March, 2020 against 2.75 times in previous year. The total debt of Rs.7.57 Cr. as on 31 March, 2020 consist of long-term debt of Rs.6.67 Cr. unsecured loans of Rs.0.90 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.09 times in FY2020 as against 0.14 times in FY2019. Acuité expects the financial risk profile to improve from below average to moderate over the medium to long term on account of higher rental collection from development of additional commercial building by the firm.

- **High customer and geographical concentration risk on revenue profile of the firm**

DAC has entered into lease agreement with Rikun Manufacturing Private Limited for the lease of the commercial spaces developed by the firm at Oragadam Industrial Park. Acuité believes that as Rikun Manufacturing Private Limited is a single lessee for all available commercial spaces of the firm, there exists high customer and geographical concentration risk on the revenue profile of the firm.

- **Instances of delays in debt servicing in the past on account of Covid-19**

The firm had prolonged liquidity issues post completion of long term lease contract with ITW India Private Limited in the month of December 2019 leading to lower rentals vis-à-vis higher repayment obligations. The liquidity issues further aggravated due to the impact of Covid-19. In FY2021, there have been instances of delays in the repayment of principal and interest obligation on term loan until December 2020 due to cash flow mismatch on account of Covid-19 and lower rental collections. The firm opting for moratorium benefit under the RBI relief package for its repayment of principal and interest obligation has mitigated the risk of delays for the time period of March 2020 to August 2020. Fund support from its partners and group companies has been aiding the firm's liquidity over the last one year; same is expected to remain until rentals from upcoming commercial space commences. Acuité derives comfort from the track record of timely repayments since January 2021 and continuous fund support from its partners and group companies.

- **Withdrawal of capital by partners**

DAC is a partnership firm and is exposed to the likeliness of the partners withdrawing capital from the business. The capital account of the partners of the firm has been fluctuating in past financial years indicating the withdrawal of capital from the business.

Liquidity Position: Stretched

The firm's liquidity is stretched marked by low unencumbered cash and bank balance and modest generation of net cash accruals in FY2020 to its maturing debt obligations. The firm has generated cash accruals in the range of Rs.0.71-1.78 Cr. during last three years ending FY2020 as against its long term debt obligations of Rs0.49-0.58 Cr. for the same period. The firm's working capital is moderate as evident from Gross Current Asset (GCA) of 236 days as on March, 2020 as compared to 180 days as on March, 2019. The current ratio stood at 1.00 times as on 31 March 31 2020. The firm maintains low unencumbered cash and bank balances of Rs.0.02 Cr. as on 31 March 31 2020. The liquidity position of the firm is stretched due to the cash flow mismatch from the rental collection of amount Rs.0.08 Cr. per month and the scheduled repayment obligation of Rs.0.11 Cr. per month. Acuité believes that the liquidity of the firm is likely to improve over the medium term on account of improvement in realization in rentals from the development of additional commercial buildings. The firm is expected to generate NCA in range of Rs.0.31-2.12 Cr. against maturing debt obligations in range of Rs.0.58-1.56 Cr. over the medium term; the gap in the near term is expected to be supported through fund support from its partners and group companies.

Rating Sensitivities

Positive

- Timely tie-up of lease activity for the upcoming commercial space leading to improvement in the scale of operations and sufficient liquidity
- Sustainable improvement in Profitability, Leverage and Solvency position of the firm.
- Continuation of timely repayment of debt obligation.

Negative

- Any deterioration in working capital cycle and liquidity profile of the firm.
- Any deterioration in Revenue profile and leverage position of the firm.
- Any weakening of financial risk profile of the firm.

Outlook: Stable

Acuité believes that DAC will continue to benefit over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive', in case of timely tie-up of leasing activity for the upcoming commercial space leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case DAC registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1.46	1.89
PAT	Rs. Cr.	0.71	1.12
PAT Margin	(%)	48.63	59.07
Total Debt/Tangible Net Worth	Times	1.54	2.32
PBDIT/Interest	Times	2.04	2.57

For the period 11MFY2021 (Prov), DAC, has reported a profit after tax (PAT) of Rs.0.04 Cr. on total operating income of Rs.0.73 Cr.

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

CRISIL Ratings vide its press release dated April 24, 2018 had denoted the rating of Devi Auto Component as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required to conduct the rating exercise.

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Lease Rental Discounting	31-March-2018	10.75%	10-May-2028	6.38	ACUITE B+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.62	ACUITE B+/Stable (Assigned)

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About Acuité Ratings & Research:

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