AKAR AUTO INDUSTRIES LTD.
(Formerly known as Akar Tools Ltd.)

AKAR
The Ultimate Grip

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IRQS Approved
ISO/TS 16949:2009
IRQS
IAO - SMMT - 01006

To,
Corporate Relations Department,
Bombay Stock Exchange Limited,
Phiroz Jeejeebhoy Tower,
Dalal Street, Fort,
MUMBAI – 400001

Date: 10th April, 2021

Reference: Scrip Code: 530621. Scrip ID: AAIL

Subject: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Review of Credit Rating.

Dear Sir,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that, CARE Ratings Limited, vide its letter dated 8th April, 2021, has reaffirmed a rating of '**CARE BB**' and '**CARE A4**' for the credit facilities availed from Canara Bank.

A copy of the report from CARE Ratings Limited covering the rationale for assignment of credit rating is enclosed for your information.

<u>Explanation for delay in filing the information:</u>

The Company is functioning with minimum staff owing to the COVID 19 related social distancing restrictions imposed in the state of Maharashtra. Therefore the information could not be filed with the stock exchange within twenty four hours from the receipt of the attached letter.

Thanking You,
Yours Truly,

For AKAR AUTO INDUSTRIES LIMITED
(Formerly known as Akar Tools Limited)

Mitesh Gadhiya
(Company Secretary)

Akar Auto Industries Ltd. Plot No.E-5, MIDC Area Waluj Aurangabad

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Akar Auto Industries Limited
April 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	11.44 (Reduced from 12.23)	**CARE BB; Stable (Double B; Outlook: Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	20.80	**CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)**	Reaffirmed
Short Term Bank Facilities	28.50	**CARE A4 (A Four)**	Reaffirmed
Total Bank Facilities	**60.74 (Rs. Sixty Crore and Seventy-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Akar Auto Industries Limited (AAIL) are constrained by modest scale of operations, below average profitability margins, volatile input prices, working capital intensive nature of business reflected in the highly utilized bank limits and moderately higher leverage, pricing pressure from the OEM's, susceptibility to the cyclicality of domestic automobile segment.
The ratings also take into account the deterioration in financial risk profile of the company during 9MFY21 (un-audited; refers to the period from April 1 to December 31) on account of COVID-19 outbreak and subsequent disruptions. However, the ratings derive strength from promoter's experience in the field of auto ancillary and steel industry, long term relationship with reputed and diversified clientele, modest order book position providing revenue visibility for medium term.

Rating Sensitivities

Positive factors: factors that could lead to positive rating action/upgrade
- *Increase in income from operations to Rs.300 crore and above with PBILDT margin in the range of 7-8% on a sustained basis.*
- *Moderation in the average utilization of the cash credit facility below 85%*
- *Improvement in Term Debt to GCA (TDGCA) ratio below 6.00 times*

Negative Factors: factors that could lead to negative rating action/downgrade
- *Any incremental debt funded capex which would lead to deterioration in the overall gearing above 3x.*
- *Significant deterioration in the profitability margins from the current levels*
- *Sustained higher bank utilization levels.*

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in Total operating income and thin profitability as reflected in the FY20 and 9MFY21 numbers.
AAIL registered ~29% de-growth in total operating income from Rs.277.41 crore in FY19 to Rs.198.97 crore during FY20 on account of slowdown in the automobile sector aggravated by the Covid-19 outbreak. During 9MFY21, AAIL registered a TOI of Rs.117.83 crore as against Rs.154.47 crore during 9MFY20. This sharp decline in the TOI by ~24% is on account of the pandemic outbreak which impacted their sales during the Q1FY21. AAIL has one plant which is dedicated solely for manufacturing of leaf springs for public transport vehicles and due to the lockdown and social distancing norms, the demand from public sectors vehicles had declined significantly. The company has lost around Rs.20-25 crore of revenue from the same. However, with resumption of local transport and expected pick-up in intra-city transport, the sales from public transport division is expected to improve from Q1FY22.

Financial risk profile marked by moderately leveraged capital structure and debt coverage indicators.

The debt profile comprises of Term loans, working capital borrowings and unsecured loans from promoters. The unsecured loan to the tune of Rs.12.74 crore extended by the promoters are subordinated to bank debt and hence, are treated as quasi equity. The overall gearing remained leveraged at 1.60x as on March 31, 2020 as against 1.46x as on March 31, 2019 however debt to equity ratio continued to be moderate at 0.29x as on March 31, 2020 as against 0.30x as on March 31, 2019. The total debt to GCA deteriorated to 35.49x as on March 31, 2020 from 7.90x as on March 31, 2019 on account of lower cash accruals during the year. Interest coverage ratio remained moderate at 1.24x during FY20 and 0.99x during 9MFY21.

Volatility in raw material prices and dependence on Group Company for procurement

The prices of steel have had been fluctuating in the past due to volatility in the global commodity markets. Moreover, AAIL operates in an industry where the raw material cost is one of the major cost drivers (constituting about ~65% of TOI over the years) and one of the major components to impact operating margin. AAIL procures around 60-70% of raw material from its group companies for various grades of steels manufactured by them. Any adverse impact on the operations of these group companies may impact the timely procurement of raw materials and subsequently costs of these materials. The prices are negotiated with customers especially OEMs, when the price of the raw material increases, the same is incorporated within the next quarter, however impact of time lag remains.

Susceptibility to cyclicality in the end user segment
The leaf spring industry in India is a commoditized business and prone to cyclicality from the automobile segment. AAIL derives majority of its income from tool division, commercial vehicle &the two-wheeler segment also from replacement demand for AAIL products. This Inherent cyclicality in these industries could pose a challenge for the company and hamper its growth prospects in future, thereby affecting its revenue generation capabilities and profitability. A fall in the level of economic to activity can impact the sales of the automotive industry as the automobile manufacturers may limit the production levels. Also, customer proximity through multiple-location manufacturing and cost-efficiency manage end-segment cyclicality are imperative for a strong competitive positioning. AAIL mitigates this risk with its manufacturing facilities located in the proximity of the industrial hubs at Aurangabad. The company derives majority (around 60-70%) of its income from automobile OEMs with CV segment being the top contributor. The automobile segment is cyclical in nature which exposes the company to the risk of deterioration in financial risk profile due to the slowdown in the auto segment.
Presence in fragmented industry
AAIL manufactures products and operates in an industry which comprises of several players and is also characterized by high degree of fragmentation. This resulted in intense competition in the industry. Further, the industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. However, for the customised products manufactured as per the OEMs specification, the entry barrier is high. Further, it is also challenging for smaller players to achieve the preferred vendor status.
Risk associated to foreign exchange fluctuation.
The company faces foreign exchange fluctuation risk as it exports various products to its overseas customer. The company partially hedges its foreign exchange exposure by using forward contracts. AAIL hedges nearly 50% of the export receivables through forward contracts.

Key Rating Strengths

Long track record of operations and over two decades of experience possessed by the promoters.

AAIL has a track record of more than two decades of operations. The company is promoted by Mr. R.L. Gupta (Chairman) and family group, holding ~73% of shares as on December 31, 2020. He has a vast experience of more than five decades in the industry. Mr. N.K. Gupta (Director), son of Mr. R.L. Gupta, is a graduate and has an experience of 40 years in steel, hand tools & forging industries. He is responsible for the production and administration activities in the company. The directors are involved in the day-to-day activities of the business and are ably supported by a qualified and professional management team who looks after various activities of production, procurement, finance, and administration.

Strong clientele base with more focus on acquisition of export clients

AAIL derived 75% of its total operating income from the domestic market and remaining from the export market during FY20. AAIL exports to global developed markets like USA, Europe, and Mexico. However, during H1FY21, export sale was ~28% of its total operating income. The company's customer base includes clients such as Ashok Leyland Limited, Tata Motors Limited, VE Commercial Vehicle Ltd, York Transport Equipment (India) Private Limited and Bajaj Auto Limited *etc.* The clientele operates in diverse end user industries such as automotive and professional tools etc. The established track record of AAIL has assisted it in ensuring repeat orders.

Modest order book position

The order book position as on March 15, 2021 stood at Rs.71.81 crore out of which around Rs.3 crore had been executed till date and the rest will be executed in the first quarter of FY22. The company had acquired new export customers in their forging and leaf spring division during the current year. Higher margin products have been introduced in both the forging and leaf spring division. The moderate order book position and expected order inflow provides revenue visibility for medium term.

Diversified product portfolio

AAIL manufactures a diverse variety of products which caters to automotive and non-automotive original equipment manufacturers (OEMs). It includes leaf springs, forgings, tool kits and hand tools. Leaf springs and forgings majorly find its application in the automotive segment. The contribution from Leaf Springs division have increased during FY20 to 43% on account of higher demand from this division in comparison to other. There's no change in the contribution from hand tools on account of steady export demand.

Liquidity: Stretched

Liquidity is marked by expected accruals of Rs.2.69 crore as against the repayment obligations of Rs.2.45 crore in FY21, highly utilized bank limits at 97% and modest cash balance of Rs.0.74 crores as on March 31, 2020.

The operating cycle of the company elongated during FY20 and stood at 116 days as compared to 78 days during FY19. The elongation is on account of higher inventory days and longer collection period. The average utilization of the company for the last 12 months ended February 28, 2021 remained at 97.11%.

The company availed moratorium for both the phases also availed the emergency working capital term loans of Rs.9.50 crore and Rs.4.13 crore during FY21. FITL of Rs.1.14 crore was opened by the lender and the full payment of the same has been done as on date.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

Liquidity Analysis of Non-Financial Sector Entities

CARE's Policy on Default Recognition

Rating Methodology - Auto Ancillary Companies

[Rating Methodology - Manufacturing Companies]

About the Company

Akar Auto Industries Limited (Formerly Akar Tools Limited; AAIL: market cap of Rs.18.74 crore as on March 26, 2021) was founded by Mr. R.L. Gupta (Chairman) as a private limited company in the year 1989. AAIL manufactures hi- quality precision engineered forging components, Hand Tools, Tool kits and Leaf Springs to cater to major auto & non-auto OEM's. AAIL is a part of Aurangabad based R.L. Group of Industries whose sister concern R.L. Steels & Energy Limited is engaged in manufacturing alloy steel products in rounds, squares, flats and special profiles. AAIL procures majority of the raw material from its group entity R.L. Steels & Energy Limited and supplies its end products to major OEMs domestically and exports to competitive markets like North America, both in auto & non-auto OEM's. With a workforce of more than 400, AAIL has four manufacturing facilities with a total installed capacity of 44,100 MTPA coupled with state-of-the art machining & testing facilities located in various industrial hubs in Aurangabad. AAIL became a Public Limited Company and was listed on BSE/NSE in 1994.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	278.01	198.97	117.83
PBILDT	18.72	9.50	5.75
PAT	5.21	-3.06	-3.76
Overall gearing (times)	1.46	1.60	NM
Interest coverage (times)	2.31	1.24	0.99

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Non-cooperation with Brickwork Rating and India Ratings

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	20.80	CARE BB; Stable / CARE A4
Non-fund-based - ST-Letter of credit		-	-	8.00	CARE A4
Fund-based - LT-Term Loan		-	September 2024	8.94	CARE BB; Stable
Non-fund-based - LT-Bank Guarantees		-	-	2.50	CARE BB; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	12.50	CARE A4

Fund-based - ST-Foreign Bill Discounting		-	-	8.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	20.80	CARE BB; Stable / CARE A4	1)CARE BB; Stable / CARE A4 (19-May-20)	1)CARE BB; Stable / CARE A4 (05-Mar-20)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	8.00	CARE A4	1)CARE A4 (19-May-20)	1)CARE A4 (05-Mar-20)	-	-
3.	Fund-based - LT-Term Loan	LT	8.94	CARE BB; Stable	1)CARE BB; Stable (19-May-20)	-	-	-
4.	Non-fund-based - LT-Bank Guarantees	LT	2.50	CARE BB; Stable	1)CARE BB; Stable (19-May-20)	-	-	-
5.	Fund-based - ST-Packing Credit in Foreign Currency	ST	12.50	CARE A4	1)CARE A4 (19-May-20)	-	-	-
6.	Fund-based - ST-Foreign Bill Discounting	ST	8.00	CARE A4	1)CARE A4 (19-May-20)	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based - ST-Foreign Bill Discounting	Simple
4.	Fund-based - ST-Packing Credit in Foreign Currency	Simple
5.	Non-fund-based - LT-Bank Guarantees	Simple
6.	Non-fund-based - ST-Letter of credit	Simple

***Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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