

RATING RATIONALE

Auto Clutches

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 10.70 Crores of Auto Clutches (or ‘the Firm’)

Particulars:

Facility**	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2020)	Present
Fund Based	8.68	10.20	Long Term	BWR BB- /Stable Issuer Not Cooperating	BWR BB- /Stable (Reaffirmed)
Non Fund Based	2.00	0.50	Short Term	BWR A4 Issuer Not Cooperating	BWR A4 (Reaffirmed)
Total	10.68	10.70	Rupees Ten Crores and Seventy Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

Rating Action/Outlook

The ratings reaffirmation has factored the financial profile of the Firm, experience of the proprietor in the manufacturing of auto parts, operational track record of the Firm and established relationships with reputed clients. The ratings, however, are constrained by the low scale of operations of the Firm, suppliers and customers concentration risk, intense competition due to the fragmented nature of the industry and proprietorship constitution of the Firm.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that the business risk profile of Auto Clutches will be maintained over the medium term. The rating outlook may be revised to 'Positive' in case the firm shows substantial increase in revenue and improvement in profit margins with overall improvement in its liquidity position. The rating outlook may be revised to 'Negative' if there is decline in revenues and profit margin or or any deterioration in the financial profile of the firm.

Key Rating Drivers

BWR has principally relied upon the audited financial results up to FY19, provisional FY20 figures and projections of FY21 of Auto Clutches, publicly available information and information/clarification provided by the Firm’s management.

Credit Strengths:

- **Proprietor's experience in manufacturing of auto parts and track record of operation:** The proprietor of the Firm has more than three decades of experience in the auto parts manufacturing industry. Auto Clutches, established as a proprietorship concern in 1986, has more than three decades of operational track record and benefits from promoters' established relationship with customers and suppliers.
- **Financial risk profile:** The financial profile of the firm was average marked by low debt equity of 1.10 times as on 31 March 2020. Also, ISCR and Net cash accrual to total debt were of 4.17 times and 32 percent, respectively in FY20. However, net worth was modest at Rs. 8.90 Crs as on 31 March 2020.
- **Established relationships with reputed clients:** Auto Clutches has established relationships with its customers such as Ashok Leyland Ltd., Tata Motors Ltd., Detroit Diesel Corporation, Daimler India Comm.Vehicle Pvt. ltd. etc and has a proven track record of garnering repeat orders from them.

Credit Risks:

- **Low Scale of operation:** Auto Clutches's scale of operation remains low with an average revenue of Rs.36.80 Cr in the last four financial years ended FY20, which has further declined to Rs.30.99 Cr in FY20 from Rs. 49.10 Cr in FY19. Revenue declined in FY20 as against FY19 due to substantial decline in domestic sales (Rs. 26.67 Cr in FY19: Rs. 14.97 Cr in FY20) on account of slowdown in Auto Industry.
- **Customers and suppliers Concentration risk:** The Firm is exposed to customers and suppliers concentration risk as the top three customers and suppliers contributed more than 50% in total sales and purchases in FY20.
- **Competition:** The Firm operates in a highly competitive industry due to the presence of a large number of organised and unorganised players.
- **Constitution of the firm:** Being a proprietorship firm, it is exposed to risks of continuity and withdrawal of capital. Capital withdrawal of Rs. 2.18 Crs and Rs. 0.08 Crs, respectively in FY19 and FY20.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has considered the standalone performance of Auto Clutches and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)



Rating Sensitivities

Positive: The ratings may be positively revised if the Firm substantially increases its revenue scale while improving its profitability along with maintaining the overall financial profile.

Negative: The ratings would be adversely affected if the revenues and profit margins decline and also if there is any deterioration in the financial profile of the Firm, and any other factors validating for downgrade.

Liquidity Position

The firm's working capital position was strong as reflected from its negative conversion cycle as on 31 March 2020 due to high payable days of 189 days . Net cash accrual declined to Rs.3.00 Cr in FY20 from Rs.4.79 Cr in FY19. Current ratio was moderate at 1.31 times and cash and cash equivalent stood low at Rs2.47 Cr as on 31 March 2020.

Profile of the Firm

Auto Clutches was established in 1986 in Shimoga, Karnataka. Mr. Subramanya is the proprietor of the concern. The concern is involved in the manufacture of automotive machine parts viz., Shackle Pin/Spring Pin, King Pin/Knuckle Pin, Selector Plate/Rails, Shifter Shafts, Machined Castings, Turned Parts and Axle Parts. The unit is spread over an area of 1,00,000 sq.ft. with an installed capacity of 3.0 Lakh pieces/month and the utilized capacity is ~75%. The concern has established heat treatment facilities in-house. Auto Clutches has a sister concern, Perfect Alloys Pvt Ltd, which is also involved in the manufacturing of other auto components. The concern exports its products to established customers like Detroit Diesel Corporation and SM Motorenteile, Germany.

Key Financial Indicators (in Rs Crs)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Operating Revenue	Rs Crs	36.88	49.10
EBITDA	Rs Crs	4.25	5.75
PAT	Rs Crs	1.97	2.55
Tangible Net worth	Rs Crs	7.70	8.07
Total Debt/Tangible Net worth	Times	1.50	1.71
Current Ratio	Times	1.31	1.31

Key Covenants Of The Instrument/Facility Rated: None

Non-cooperation With Previous Rating Agency: Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	2019	18.4.2018	11.8.2017
Fund Based	Long Term	10.20	BWR BB-/Stable (Reaffirmed)	-	BWR BB/Stable	BWR BB-/Stable Issuer Not Cooperating*
Non Fund Based	Short Term	0.50	BWR A4 (Reaffirmed)	-	BWR A4	BWR A4 Issuer Not Cooperating*
Total		10.70	Rupees Ten Crores and Seventy Lakhs Only			

Note: The firm was moved under 'Rating not Reviewed' in July 2019.

**Issuer did not cooperate, based on best available information*

^ BWR had downgraded the long term rating to BWR BB-/ Stable while reaffirmed the short term rating at A4 and categorized the rating as Issuer Not Cooperating for bank loan facilities of Rs.10.68 cr on 3.2.2020.

^ BWR had upgraded the long term rating to BWR BB/ Stable while reaffirmed the short term rating at A4 for bank loan facilities of Rs.7.15 cr on 11.5.2016.

^ BWR had assigned BWR BB-/ Stable/ A4 for bank loan facilities of Rs.3.95 cr on 6.2.2015.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Services Sector**

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Auto Clutches

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Crs)	Short Term (Rs Crs)	Total (Rs Crs)
1.	Axis Bank	Term Loan	2.16	-	2.16
2.		CC	7.00	-	7.00
3.		Proposed Term Loan	1.04	-	1.04
4.		BG	-	0.50	0.50
TOTAL					10.70

Total Rupees Ten Crores and Seventy Lakhs Only

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has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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