Rating Rationale

22 May 2020

Emkay Automobiles Industries Ltd.

Brickwork Ratings downgrades the ratings, with revision in outlook to Negative, for the Bank Loan facilities aggregating to Rs.71.85 Crs of Emkay Automobiles Industries Ltd.

Particulars:

Issue	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Tenure	Previous Rating (Feb 2019)	Present Rating^
Fund Based					
Term Loan	15.00	8.85	Long Term	BWR BBB Stable	BWR BB+ Negative Downgrade
CC	59.00	59.00			
Non Fund based					
LC	4.00	4.00	Short Term	BWR A3	BWR A4+ Downgrade
Total	**78.00**	**71.85**	**INR.Seventy One Crores and Eighty Five lakhs Only**		

^Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.
Please refer to Annexure I for bank facilities details.

RATING ACTION / OUTLOOK

The downward revision in the rating of Emkay Automobiles Industries Ltd. (EAIL or the company) factors in deterioration in its key financial indicators including debt protection metrics owing to decline in EBITDA and increased interest expenses because of increased borrowings, which have also adversely affected its leverage (Net Debt / EBITDA ratio). The company also has substantially high outstanding receivables of Rs.24.64 Crs since FY18, recoverable from its associated concern and other sundry debtors.

The ratings derive comfort from the promoters' business experience in the auto components industry, long-standing relationships with original equipment manufacturers (OEMs) & industry majors, Tata Motors (TM) and Mahindra & Mahindra (M&M) for supplying 4 wheeler springs for their passenger car variants.

Rating Outlook: Negative

Rating outlook of the company has been revised to 'Negative' owing to its subdued business performance in FY19 resulting in a deterioration of overall financial risk profile, and the assumption that the performance and its financial parameters would continue to be weak in FY21 owing to headwinds being faced by the auto sector for various reasons, including the after effects of the COVID-19 pandemic lockdown imposed in the country. BWR is also concerned with the high term loan repayments of the company in FY20 & FY21 and its ability to generate sufficient cash accrual to service the same. The 'Negative' outlook indicates a high likelihood of rating change over the medium term. The rating outlook may be revised to 'Stable' in case the revenues and profits show sustained improvement over the medium term.

Impact of COVID-19: The company has obtained a three month moratorium on repayment of interest and principal, as per the RBI guidelines. At this stage, it is difficult to quantify the COVID-19 pandemic impact on the business of the company. The company has informed BWR that production commenced on 18 May 2020 with 50% labor and extended shifts.

Key Rating Drivers

Credit Weaknesses

Profitability: EAIL's PAT has substantially declined to Rs. 0.90 Crs in FY19, as against PAT of Rs.3.50 Crs in FY18 owing to increased operating expenses and higher interest costs in FY19. To cater to its customer requirements, the company increased steel sheet fabrication which lowered its margins owing to high volatility in raw material prices, which was beyond its control.

Coverage Ratios: EAIL's debt protection metrics also deteriorated with ISCR at 1.69x (P.Y. 1.86x) and DSCR at 1.04x (P.Y. 1.10x), respectively during FY19. DSCR declined owing to substantial increase in term loan repayments, coupled with lower EBITDA in FY19. DSCR is expected to further deteriorate in FY20 and FY21, unless there is a marked improvement in its cash accruals.

Leverage Ratios : The financial leverage (viz Net Debt/ EBITDA ratio) of the company has deteriorated to 4.82x in FY19 as against 4.06x in FY18 owing to increased debt and decline in EBITDA in FY19 .

Financial Risk Profile: EAIL's gearing (Total Debt/TNW ratio) increased to 1.42x in FY19 as against 1.23x in FY18 on account of additional term loans availed for its capex.

Credit Strengths:

- **Strategic location of manufacturing units:** EAIL has set up its manufacturing units in the vicinity of the OEMs. This helps EAIL to remain competitive in the industry by increasing the efficiency in the operational cycle and keeping transportation cost and handling costs low. It also provides further business opportunities to the company for manufacturing of various components for other customers in the proximity.

- **Established OEM association :** The company is a preferred vendor for Ashok Leyland, Gabriel, Bajaj Pulsar, Munjal Showa amongst others, for providing automotive components including coil springs, precision sheet metal components, tubular components and fabrication assemblies. Further, the company is on the verge of finalizing the agreements with TM and M&M for manufacturing 4 wheeler springs for its passenger car variants and other auto parts. The company expects a revenue of Rs.200 Crs from these contracts in FY21.

- **Increase in revenue:** The company's turnover improved by 12.25% to Rs.218.28 Crs in FY19 vis-a-vis Rs.194.45Crs in FY18 is on account of the company's supply of sheet metal components to OEMs. Further, BWR is advised by the management that the company has recorded a revenue of Rs.250 Crs (provisional) in FY20.

- **Experienced promoters:** EAIL's promoters have been engaged in the business of manufacturing auto components for two wheelers and four wheelers over the past three decades. The top management at EAIL is ably supported by a qualified and professional senior management team having experience in the industry for more than a decade to manage various functions of the company. The vast experience of the promoters has established relationships with OEMs and auto industry majors which has enabled the company to fetch repeat orders.

Analytical Approach

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positives: The rating is sensitive to the achievement of projected sales revenues, improvement in profitability margins,and reduction in overall gearing to acceptable levels, with stable debt protection metrics and moderate liquidity parameters.

Negatives: An adverse rating action may be taken. if the company's gearing and debt protection metrics deteriorate from the current levels, and the profitability margins and operating income estimated for FY20 is not achieved.

Liquidity: Poor

For FY20, the Company had the total debt repayment obligation of Rs.10.94Crs against the cash accruals (PAT + Dep.) of Rs.9.52 Crs (projected) as on Mar 2020, with no buffer of cash & liquid investments in FY19. Cash Credit limit remains fully utilised on account of increasing inventory and receivables. Going forward, any increase in inventory and receivables levels will put a higher strain on the already stretched liquidity position of the company.

About the Company

Emkay Automobiles Industries Ltd. (EAIL) was incorporated in September 2000 . The company is an ISO/TS 16949:2009 certified organization engaged in manufacturing of automotive components including coil springs, precision sheet metal components, tubular components and fabrication assemblies. The company has four manufacturing units located at Gurugram, Nashik,Pantnagar and Haridwar. The Directors of the company are Mr.M.K. Jajoo, Mr.Nitin Pahuja, and Mr.Varun Mahendra Jajoo.

<u>Key Financial Indicators</u>

Key Parameters	Units	FY 18	FY 19
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. Crs	194.45	218.28
OPBDIT	Rs. Crs	16.99	16.76
PAT	Rs. Crs	3.50	0.90
Tangible Net worth	Rs. Crs	56.06	56.98
TOL/TNW	Times	2.27	2.69
Current Ratio	Times	1.25	1.15

RATING HISTORY for past three years (including ratings suspended/withdrawn)

<table>
<tr><th rowspan="2">Facilities</th><th colspan="3">Current Rating (2020)</th><th colspan="10">Rating History for the past 3 years (Amount in Rs. Crs)</th></tr>
<tr><th colspan="3">Rating</th><th colspan="3">04 Feb 2019*</th><th colspan="3">02-Nov-2018</th><th>2017</th></tr>
<tr><td>Bank Loan</td><td>FB</td><td>67.85</td><td>BWR BB+ Negative</td><td>FB</td><td>74.00</td><td>BWR BBB Stable</td><td>FB</td><td>35.00</td><td>BWR BBB Stable</td><td>NA</td></tr>
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	NFB | 4.00 | BWR A4+	NFB | 4.00 | BWR A3	NFB | 4.00 | BWR A3	NA

**Advisory Press Release issued on 4May20*

Status of non-cooperation with previous CRA : NA

Any other information: Not Applicable

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Unit**
- **Short Term Debt**

Analytical Contacts	Investor and Media Relations
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Emkay Automobiles Industries Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	CC	35.00	-	35.00
2		LC	-	4.00	4.00
3	Yes Bank	CC	24.00	-	24.00
4		WCDL (Sub Limit of CC)	(24.00)	-	(24.00)
5		TL	8.85	-	8.85
6		LC (Sub Limit of CC)	-	(12.00)	(12.00)
TOTAL					71.85

Total :Rs.Seventy One Crores and Eighty Five lakhs Only.

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Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. 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.