

Rating Rationale

Brickwork Ratings assigns ‘BWR BB-’ (Pronounced BWR Double B Minus) and ‘BWR A4’ (Pronounced BWR A Four) Ratings for the Banking Facilities of ₹ 8.56 Crores of Aditya Auto Engineering Private Limited (AAE)

Brickwork Ratings has assigned the following Ratings¹ to Bank Loan facilities amounting to ₹ 8.56 Crores of *Aditya Auto Engineering Private Limited (AAE)*

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based			
Working Capital-Cash Credit	3.00	Long Term	BWR BB- (Outlook Stable) (Pronounced BWR Double B Minus)
Term Loan 1	0.06		
Term Loan 2	3.00		
Non-Fund Based			
Bank Guarantee	1.50		
Letter of Credit	1.00	Short Term	BWR A4 (Pronounced BWR A Four)
Total	8.56	(INR Eight Crores and Fifty Six Lakhs Only)	

BWR has essentially relied upon the audited financial results of AAE up to FY12, and information and clarifications provided by the company.

The ratings assigned to the bank facilities of *Aditya Auto Engineering Private Limited (AAE)* are primarily constrained by its modest scale of operations, leveraged capital structure and stretched working capital cycle. The ratings are further constrained by fluctuation in raw material prices, supplier and customer concentration risk, intra-group transactions, cyclicality in the automobile industry and high degree of competition in the line of activity due to its fragmented nature.

¹ Please refer to BWR website www.brickworkratings.com for definition of the ratings assigned.

The ratings continues to draw strength from satisfactory track record of AAE and experience of its promoters, strong technical tie-ups with reputed truck majors, expanding user segments and improving financial position.

Background:

Aditya Auto Engineering Private Limited (AAE), established in the year 2009 started its commercial production from 2010. It is involved in manufacturing of tippers, trailers and automobile engineer components for Original Equipment Manufacturers (OEMs). Apart from manufacturing, AAE also undertakes job work for others. Mr. Gopal Reddy and Mr. Ramesh Reddy, having experience of more than 15 years in the same line of business, are the promoters.

Aditya Industries, a partnership firm, was also started Mr. Gopal Reddy and Mr. Ramesh Reddy. The firm is in the same line of business as of AAE. Besides, both the entities are engaged in a number of transactions with each other and are the top customer and supplier for one another.

AAE is the authorised vendor to HYVA. Apart from HYVA, the company has a good client list which includes Volvo, TATA, and Marco polo, NECC Infrastructure, and Krishnapatnam Port. AAE is also the dealer for Scania Trucks. Added, the company is looking forward to get the dealership of Ashok Leyland, where the prototype is being manufactured to get the approval.

Financial Performance:

Financial performance of AAE since inception is characterized by growth in turnover and profit level. As per the audited results of FY12, AAE has reported PAT of ₹0.32 crore on a total operating income of ₹19.47 crore. The capital structure continued to remain leveraged as indicated by 5.75 times as on March 31, 2012. Furthermore, the working capital cycle also elongated to 80 days in FY12 due to increased inventory holding period. AAE's working capital borrowings have also increased with the increase in scale of operation.

AAE has made a turnover of ₹22.39 Crores for the 9 month period ending December 31, 2012.

The directors of the company have brought in more funds during the year and are planning to infuse more capital to ₹3.00 Crores by March 31, 2013.

Rating Outlook:

Increase in the turnover levels resulting in improved profitability, equity infusion by the promoters to reduce the leverage, and more efficient management of working capital cycle are the key sensitivities. In addition, two separate legal entities in similar activity operating in the same premises needs to be reviewed.

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