

## Rating Advisory

October 08, 2021 | Mumbai

# Austin Engineering Company Limited

### Advisory as on October 08, 2021

This rating advisory is provided in relation to the rating of Austin Engineering Company Limited

The key rating sensitivity factors for the rating include:

#### Upward factors

- Improvement in scale and profitability, leading to cash accrual of Rs 3 crore on a sustained basis
- Better working capital management

#### Downward factors

- Increase in bank limit utilisation to over 90%
- Large capital expenditure or sharply increased working capital or deterioration in the business profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Austin Engineering Company Limited (AECL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If AECL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

#### About the group

Established in 1985, the AECL group manufactures anti-friction bearings that are used across the power, mining, steel, cement, defence, and transportation segment. Manufacturing plants are in Junagadh, Gujarat.

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## Rating Rationale

July 10, 2020 | Mumbai

### Austin Engineering Company Limited

*Ratings Reaffirmed*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.22 Crore
Long Term Rating	CRISIL BB/Stable (Reaffirmed)
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BB/Stable/CRISIL A4+' ratings on the bank facilities of Austin Engineering Company Limited (AECL; part of the AECL group).

The ratings continue to reflect the AECL group's moderate capital structure and its long market presence in the industrial bearings segment. These strengths are partially offset by limited bargaining power with customers, working capital-intensive operations, and exposure to volatility in profitability, raw material prices and foreign exchange (forex) rates.

#### Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of AECL and its subsidiary, Austin Engineering Company (AEC; formerly, Accurate Engineering Inc). This is primarily because the entities, together referred to as the AECL group, have operational synergies, wherein AEC acts as a marketing arm for AECL in the US.

*Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

#### Key Rating Drivers & Detailed Description

##### **Strengths:**

\* **Moderate capital structure:** Network and gearing were estimated around Rs 50 crore and 0.2 time, respectively, as on March 31, 2020 (Rs 51 crore and 0.14 time, respectively, as on March 31, 2019). Losses incurred during fiscal 2020, led to a slightly lower network, yet minimal reliance on external debt has kept gearing comfortable. While debt protection measures have been affected by losses, healthy capitalisation levels have aided the financial risk profile and liquidity.

\* **Long market presence in the industrial bearings segment:** The group manufactures customised industrial bearings for numerous industries, but mainly caters to the non-automotive sector. The group has historically derived around 40% of its revenue from exports to the US and Europe. Benefits from track record of over two decades and healthy relationship with customers will continue.

##### **Weaknesses:**

\* **Exposure to volatility in profitability, raw material prices and forex rates, and limited bargaining power with customers:** Intense competition limits the ability to pass on any hike in raw material prices to customers, thus constraining profitability. Over the five years ending March 31, 2020, the group's operating margin has been below 5%. Furthermore, significant exports, in the absence of any hedging policy, exposes the group to fluctuations in forex rates.

\* **Large working capital requirement:** Gross current assets were high at 283 days as on March 31, 2019, because of large inventory and stretched receivables of over 182 days and 83 days, respectively. The working capital intensity is estimated at similar levels in fiscal 2020.

## Liquidity Adequate

Liquidity remains adequate, aided by moderate bank limit utilisation and absence of any term debt. Bank limit utilisation averaged around 50% in the 13 months ended April 30, 2020, despite the large working capital requirement. Current ratio was healthy estimated over 2 times as on March 2020. Current freely available cash bank balance of around Rs 3 crore also aids liquidity.

## Outlook: Stable

CRISIL believes the AECL group will continue to benefit from its healthy capital structure and moderate order pipeline.

## Rating Sensitivity factors

### **Upward factors**

- \* Improvement in scale and profitability, leading to cash accrual of Rs 3 crore on a sustained basis
- \* Better working capital management

### **Downward factors**

- \* Increase in bank limit utilisation to over 90%
- \* Large capital expenditure or sharply increased working capital or deterioration in the business profile

## **About the Group**

Established in 1985, the AECL group manufactures anti-friction bearings that are used across the power, mining, steel, cement, defence and transportation industries. Manufacturing plants are in Junagadh, Gujarat.

## Key Financial Indicators - Consolidated

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	97	78
Reported profit after tax	Rs crore	1.9	(1.2)
PAT margin	%	2.0	(1.5)
Adjusted debt/adjusted networth	Times	0.15	0.11
Interest coverage	Times	5.42	0.78

Any other information: Not applicable

## **Note on complexity levels of the rated instrument:**

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating

Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

## Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Complexity Level	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	2.5	NA	CRISIL A4+
NA	Cash Credit	NA	NA	NA	13.9	NA	CRISIL BB/Stable
NA	Credit Limit Under Gold Card	NA	NA	NA	1.6	NA	CRISIL BB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	4	NA	CRISIL BB/Stable

## Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Austin Engineering Company Ltd Austin Engineering Company	Full Consolidation	AEC is subsidiary of AECL and acts as its marketing arm

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	19.50	CRISIL BB/Stable			06-05-19	CRISIL BB/Stable	21-02-18	CRISIL BB/Negative	30-10-17	CRISIL BB+/Negative	CRISIL BBB-/Negative
										07-07-17	CRISIL BB+/Stable	
Non Fund-based Bank Facilities	LT/ST	2.50	CRISIL A4+			06-05-19	CRISIL A4+	21-02-18	CRISIL A4+	30-10-17	CRISIL A4+	CRISIL A3
										07-07-17	CRISIL A4+	

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	2.5	CRISIL A4+	Bank Guarantee	2.5	CRISIL A4+
Cash Credit	13.9	CRISIL BB/Stable	Cash Credit	13.9	CRISIL BB/Stable
Credit Limit Under Gold Card	1.6	CRISIL BB/Stable	Credit Limit Under Gold Card	1.6	CRISIL BB/Stable
Proposed Long Term Bank Loan Facility	4	CRISIL BB/Stable	Proposed Long Term Bank Loan Facility	4	CRISIL BB/Stable
<b>Total</b>	<b>22</b>	<b>--</b>	<b>Total</b>	<b>22</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Auto Component Suppliers](#)

[CRISILs Bank Loan Ratings](#)

[CRISILs Criteria for Consolidation](#)

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