

## Rating Rationale

January 24, 2023 | Mumbai

### Tata Autocomp Systems Limited

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.240 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AA/Stable</b>
<b>Short Term Rating</b>	<b>CRISIL A1+</b>

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*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings' ratings on the bank facilities of Tata Autocomp Systems Limited (TACO) continue to reflect healthy business risk profile, as indicated by its leading market position in the automotive (auto) components business, as well as diversified revenue profile and technological tie-ups with global auto component manufacturers. The ratings also factor in the support TACO receives from the Tata Sons Pvt Ltd (Tata Sons; rated 'CRISIL AAA/Stable/CRISIL A1+'). These strengths are partially offset by customer concentration risk in revenue, industry cyclical, leveraged capital structure post acquisition of TitanX and weak but improving assemblies and overseas businesses.

CRISIL Ratings has upgraded its rating on the long-term bank facilities of TACO to 'CRISIL AA/Stable' from 'CRISIL AA-/Positive' while the short-term rating is reaffirmed at 'CRISIL A1+' on October 07, 2022. The upgrade in rating reflects higher-than-expected improvement in overall operating and financial profile of the group backed by healthy increase in revenue and operating profitability, and strong internal cash accruals. The improved business profile is driven by improving product diversity and new orders from its largest customer, Tata Motors Ltd (TML; rated 'CRISIL AA-/Stable/CRISIL A1+'), as well as other customers.

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The consolidated revenue grew by about 65% in fiscal 2022 to Rs 8,387 crore while operating margin improving to 10.9% from 7.7%. in the previous fiscal driven by various cost efficiency measures implemented by the group. The improvement in operating performance is seen across entities in the group. The performance is expected to sustain over the medium term by new orders from Tata Motors, addition of new customers, and product diversification consisting of electric vehicles (EV) auto components. The group expects the consolidated revenue to grow by over 50% in the current fiscal 2023 on the back of positive automotive outlook for PV and CV auto industry in India, up-take in economic activity, and increase in EV penetration adoption. The group currently has presence in EV majorly for TML models. The share in revenue is ~10%. The group expects to add more customers like MG Motors, Bajaj Auto to supply battery management systems etc and will continue to focus on EV segment with its share expected to reach ~40% by fiscal 2025. The operating margin is expected to remain at about 11% despite operating leverage benefit as it will be offset by the input cost inflation given the current macro-economic scenario.

To leverage on this growth, the group is expected to incur around Rs 2000 crore capex over the medium term towards capacity expansion. The same is expected to be funded primarily through internal accruals given the strong improvement in operating performance to be sustained over the medium term. As a result of expected sharp growth in operating profits, cash flows shall be more than sufficient to cover capex spends and shall also enable reduction in debt levels. Even in fiscal 2022, the group's debt protection metrics were better-than-expected as reflected in debt/EBITDA of 1.4 times as against 3.5 times in previous fiscal.

Liquidity is expected to remain healthy supported by cash surplus, unutilized bank lines and expected annual cash accrual of RS 500-600 crore per annum. As on March 31, 2022, the company had adequate liquidity with cash and equivalent and unutilized bank lines of around Rs 658 crores.

#### Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of TACO and its subsidiaries, TitanX, Tata Toyo Radiator Limited, Automotive Stampings and Assemblies Limited, Tata AutoComp

Hendrickson Suspension Private Limited, and the joint ventures (JVs), namely, Tata Ficosa Automotive Systems Limited, Tata AutoComp GY Batteries Pvt Limited, Prestolite, and Gotion JV to full extent and TM Automotive Seating Systems Pvt Limited, Tata AutoComp Katcon Exhaust Systems Pvt Limited, and Air TTR to the extent of TACO's shareholding. This is because all these companies, collectively referred as the TACO group, have business and financial linkages.

CRISIL Ratings has also applied parent notch-up framework to factor support available to TACO from Tata Sons Pvt Limited (CRISIL AAA/Stable/CRISIL A1+) as TACO is the subsidiary of Tata Sons Pvt Limited.

*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:**

##### **Established position in the auto components business and diversified revenue profile:**

The TACO group is one of the leading players in the auto components industry with a track record of over two decades. The diversity and scale of operations has also benefited significantly from the acquisition of TitanX in 2016, which helped the group gain a foothold in the global radiator industry. As a result, customer diversity has also improved for the TACO group with share of Tata Motors reducing to 30%-35% of total revenue from fiscal 2018 onwards from around 50% in the past. Furthermore, TACO is present in diverse product segments such as interior plastics and composites, radiators, batteries, stampings, suspensions, mirror assemblies and engine cooling systems. Enhanced geographical and customer diversity will benefit the TACO group in achieving stable operating performance over the medium term.

##### **Technological tie-ups with global component manufacturers:**

Over the years, TACO has actively forged technical and financial JVs with major global auto component manufacturers such as Hendrickson International (USA), Ficosa International SA (Spain), GS Yuasa International (Japan), Magna International Inc (Canada), T Rad & Co Ltd (Japan), and Hefei Gotion (China). Most of these JV partners are among the market leaders in their respective product lines and have technological acumen and years of working relationships with leading global original equipment manufacturers (OEMs).

##### **Adequate and improving financial risk profile:**

TACO's key financial debt metrics have improved significantly in fiscal 2022 due to improved operating performance. For instance, the group's debt-to-EBITDA (excluding the Ind-AS impact and including the debt for the acquisition of TitanX) ratio at a consolidated level stood at 1.4 times in fiscal 2022, a sharp correction from 3.5 times in previous fiscal. Given the positive demand outlook thereby ensuring strong top-line and operating profitability growth over the medium term could result in further strengthening of the key debt protection metrics. Further, the group's consolidated annual accruals are expected to improve significantly in over fiscal 2023 to fiscal 2025, which shall be more than sufficient to repay debt obligations of ~ Rs 200-250 crore p.a.

##### **Support from and strategic importance to parent:**

TACO is strategically important to the Tata group, because of its status as the holding company for the group's ventures into the auto components sector. The group has been setup primarily with a view of captive consumption and ecosystem creation and more recently to tap the Electric Vehicle market. Over the years, the group has entered strategic partnerships to enable synergy benefits for Tata Motors Limited in terms of technology adoption and know-how. The group having gained from the partnerships is now looking to add other clients and leverage on the technical know-how. TACO, along with various group companies, is a single-source supplier of components for a number of existing as well as proposed models of Tata Motors.

TACO is owned fully by Tata group entities with direct holding by Tata Sons (14.25%), and indirect holding of Tata Sons through Tata Industries Limited, Tata Motors Limited, and Tata Capital Limited. Tata Sons Pvt Ltd (CRISIL AAA/Stable/CRISIL A1+) along with Tata Industries Ltd (CRISIL AAA/Stable/CRISIL A1+) are actively involved in TACO's management and strategic decisions. TACO benefits from healthy financial flexibility on account of it being a part of the Tata group. In the past, the Tata group has demonstrated its support to TACO to tide over exigencies by extending unsecured loans in fiscal 2010 and preference capital, inter-corporate deposits between fiscals 2005 and 2009 to fund investment plans. CRISIL believes strong management and financial support from the Tata group will remain a key rating driver for TACO.

#### **Weakness:**

##### **Customer concentration risk in the revenue profile:**

Major portion of revenues, about 45-50% comes from sales to Tata Motors passenger vehicle segment while the same has reduced post completion of acquisition of TitanX. The revenue share, however, is expected to increase due to high growth expected in electric vehicle segment. The group is looking to add new clients under certain business segments, however, given the EV boom, and Tata Motor's first mover advantage, revenue concentration is likely to be skewed to Tata Motors. EV adoption is likely to increase in the medium to long term on account of higher penetration and increase in public charging stations.

##### **Susceptibility to inherent cyclicity in the auto industry:**

TACO group derives its almost entire revenue from the OEM segment, which is inherently cyclical. Auto OEMs were adversely hit in fiscal 2020 due to drop in consumer spending, weak monsoon, and imposition of BS-VI. To add further pressure, fiscal 2021 was impacted by COVID-19 pandemic led disruption. Growth recovered only from the second half of fiscal 2021. While the group's annual revenue has recorded compound annual growth rate of 15% over the five fiscals through 2022, performance remains vulnerable to economic downturns largely related to inflation headwinds and supply of key raw materials.

#### **Liquidity: Strong**

Liquidity is expected to remain strong, supported by cash surplus, unutilized bank lines and expected annual cash accrual of INR 1,000 crores upwards. As on March 31, 2022, the company had adequate liquidity in the form of cash and equivalent and unutilized bank lines of around INR 658 crores.

#### **Outlook: Stable**

CRISIL Ratings believes that TACO will continue to benefit from its diverse business segments, widening geographic presence, improving customer base, and steady demand prospects for its products, supported by healthy operating capabilities. Over the medium term, better cash flow generation from domestic and overseas businesses, and prudent capital spend, will enable TACO's debt metrics to witness steady improvement.

#### **Rating Sensitivity Factors**

##### **Upward Factors:**

- Sustenance of customer and geographical diversity in revenue, and better than anticipated revenue growth, which along with steady operating profitability (10%-12%), will lead to higher cash accruals.
- Better than anticipated improvement in debt metrics (debt / EBITDA around 0.5 times) on a sustained basis, supported by prudent capital spending.

##### **Downward Factors**

- Weak business performance impacting cash generation, or additional, sizeable debt-funded capex, investments, or acquisitions, delaying the expected correction in debt metrics (debt to EBITDA ratio of over 2.0 times on steady-state basis)
- Change in stance of support from the promoter group
- Significant deterioration in credit risk profile of the Tata Sons

#### **About the Company**

TACO was promoted by the Tata group in 1995 and it operates as the vehicle for the group's ventures in the auto components business. TACO is owned by Tata group companies with Tata Sons Pvt Ltd holding 14.25%, Tata Industries Ltd holding 34.40%, TML holding 26% and Tata Capital Ltd ('CRISIL AAA/Stable/CRISIL A1+') holding 24% stake. TACO's own standalone operations include manufacture of auto plastic products and sheet-moulded composite parts. Furthermore, TACO offers services in engineering and supply chain management, and provides centralised corporate services to group companies. The TACO group currently operates through domestic subsidiaries and operating JVs, organised under Automotive Stampings & Assemblies Limited, Tata AutoComp Hendrickson Suspensions Private Limited, Tata Toyo Radiator Limited, Tata Ficosa Automotive Systems Limited, Tata AutoComp GY Batteries Limited, and TM Automotive Seatings Systems Private Limited, which are in auto stampings, lift axles and tandem-boogie suspensions, radiators, rear-view interior and exterior mirrors, auto storage batteries and seating systems, respectively. Furthermore, the TACO group has an overseas operating subsidiary in China and an overseas holding company. In September 2012, TACO completed the merger of TACO Composites Ltd (erstwhile wholly owned subsidiary of TACO) with itself. The merger was effective from April 1, 2011. The group operates 33 manufacturing facilities spread across India, including two facilities in China and four technology centres in India.

TACO acquired TitanX in fiscal 2017 through its subsidiary Ryphez Holding (Sweden) AB. The acquisition of TitanX offers TACO the latest technology in engine cooling solutions for commercial vehicles outside India and helps TACO expand its reach globally, acquire new customers, as well as enhance its presence in the cooling and emission control segments. Customers for TitanX include Daimler AG (Daimler; rated BBB+/Negative/A-2 by S&P Global), AB Volvo (Volvo; rated A-/Stable/A-2 by S&P Global), Scania AB (Scania; rated BBB/Stable/A-2 by S&P Global) and IVECO S.P.A, Italy. Further, TACO has provided corporate guarantee towards loan facility obtained from lenders by Ryphez Holding (Sweden) AB.

#### **Key Financial Indicators- (CRISIL Ratings-adjusted)**

As on March 31	Unit	2022	2021	2020
Revenue	Rs crore	8,577	5,196	4818
Profit After Tax (PAT)	Rs. crore	488	-45	42
PAT Margin	%	5.7	-0.9	0.9
Adjusted debt/networth	Times	1.1	1.8	1.79
Adjusted interest coverage	Times	7.54	3.59	3.19

**Any other information:** Not applicable

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

CRISIL Ratings` 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.

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#### **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	45	NA	CRISIL AA/Stable

NA	Working Capital Facility	NA	NA	NA	95	NA	CRISIL AA/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	30	NA	CRISIL AA/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	70	NA	CRISIL A1+

#### Annexure – List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale
Ryphez Holding (Sweden) AB	Full Consolidation	Subsidiary
TitanX Holding AB (Sweden)	Full Consolidation	Step subsidiary
TACO Holdings (Mauritius) Ltd	Full Consolidation	Subsidiary
Nanjing Tata Autocomp Systems Ltd	Full Consolidation	Step subsidiary
Tata Toyo Radiator Ltd	Full Consolidation	Subsidiary
Air International TTR Thermal Systems Pvt. Ltd	Full Consolidation	Joint Venture
Automotive Stampings and Assemblies Ltd	Full Consolidation	Subsidiary
TACO Eng. Services GmbH	Full Consolidation	Subsidiary
Tata Autocomp Hendrickson Pvt Ltd	Full Consolidation	Joint Venture
Tata Ficosa Automotive Systems Ltd	Full Consolidation	Joint Venture
Tata Autocomp GY Batteries Pvt Ltd	Full Consolidation	Joint Venture
TM Automotive Seating Systems Pvt Ltd	Proportionate Consolidation	Joint Venture
Tata Autocomp Katcon Exhaust Systems Pvt Ltd	Proportionate Consolidation	Joint Venture

#### Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	170.0	CRISIL AA/Stable		--	07-10-22	CRISIL AA/Stable		--	24-12-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--	--	25-02-22	CRISIL AA-/Positive	--	30-09-20	CRISIL AA-/Stable	--		
			--	--	--	--	--	18-06-20	CRISIL AA-/Stable	--		
			--	--	--	--	--	31-03-20	CRISIL AA-/Stable	--		
<b>Non-Fund Based Facilities</b>	ST	70.0	CRISIL A1+		--	07-10-22	CRISIL A1+		--	24-12-20	CRISIL A1+	CRISIL A1+
			--	--	25-02-22	CRISIL A1+	--	30-09-20	CRISIL A1+	--		
			--	--	--	--	--	18-06-20	CRISIL A1+	--		
			--	--	--	--	--	31-03-20	CRISIL A1+	--		
<b>Non Convertible Debentures</b>	LT		--		--	--	--		--	30-09-20	Withdrawn	CRISIL AA-/Stable
			--	--	--	--	--	18-06-20	CRISIL AA-/Stable	--		
			--	--	--	--	--	31-03-20	CRISIL AA-/Stable	--		

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	45	State Bank of India	CRISIL AA/Stable
Letter of credit & Bank Guarantee	20	Axis Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	30	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	5	State Bank of India	CRISIL A1+
Letter of credit & Bank Guarantee	15	HDFC Bank Limited	CRISIL A1+
Proposed Working Capital Facility	30	Not Applicable	CRISIL AA/Stable

Working Capital Facility	80	Axis Bank Limited	CRISIL AA/Stable
Working Capital Facility	15	HDFC Bank Limited	CRISIL AA/Stable

This Annexure has been updated on 24-Jan-23 in line with the lender-wise facility details as on 04-Aug-21 received from the rated entity

## Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Auto Component Suppliers</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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