CRISIL Ratings

Rating Rationale

June 07, 2023 | Mumbai

Ashok Iron Works Private Limited

Rating upgraded to 'CRISIL A+/Stable'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.125 Crore (Enhanced from Rs.95 Crore)**
Long Term Rating	**CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities of Ashok Iron Works Private Limited (AIWPL) to '**CRISIL A+/Stable**' from 'CRISIL A/Stable'.

The rating upgrade reflects sustained improvement in AIWPL's business risk profile over the years. Revenue is estimated to be around Rs 832 crore for the 9-month period ending December 2022, against Rs 784 crore in fiscal 2022 and Rs 615 crore in fiscal 2021. This steady revenue growth is primarily driven by strong demand from farm equipment and automobile sectors, which are the company's key revenue sources. Strong revenue scale along with operating margin of 21-22%, results in healthy cash accruals. Going forward, the overall scale of operations is likely to improve along with sustenance of health operating profitability. The rating upgrade also factors in the sustenance of strong financial risk profile with healthy capital structure and debt protection metrics. Prudent working capital management continues to benefit the company's liquidity profile, which is likely to remain strong despite any unfavourable outcome from the ongoing dispute between the promoter families.

The rating continues to reflect AIWPL's established market position in the automotive components sector and promoter's extensive industry experience. These strengths are partially offset by cyclicality in end-user industries and exposure to fluctuations in raw material prices.

Key Rating Drivers & Detailed Description

Strengths:

Established market position: The company has been supplying to established players such as Cummins India Ltd, TAFE, Perkins and Mahindra & Mahindra Ltd, for over two decades. Healthy relationships with clients and strong market position have enabled the company to grow to Rs 784 crore turnover in fiscal 2022 from Rs 407 crore in fiscal 2017 and should continue to support the business, going forward.

Strong financial risk profile: The financial risk profile is expected to remain strong over the medium term supported by healthy accretion to reserve and low debt levels. Networth was Rs 606.45 crore and Total outside liabilities to tangible networth ratio was 0.22 time, as on March 31, 2022, improved from 0.31 time and Rs 508.19 crore, respectively, as on March 31, 2021. Interest coverage ratio was comfortable at 89.91 times in fiscal 2022. Driven by healthy profitability and low debt, the capital structure and debt protection metrics are likely to improve over the medium term.

Weakness:

Cyclicality in end-user industries: The company derives around 70% of its revenue from the farm equipment and auto sector, wherein it supplies to original equipment manufacturers of commercial vehicles (CVs) and tractors. These segments are cyclical as demand is driven by factors such as growth in industrial and agricultural production, freight movement, change in freight rates and fuel prices, profitability of truck operators and state transport undertakings, and government policies. Continued dependence on the CV and tractor segments will render the business susceptible to cyclicality.

Susceptibility to volatility in raw material prices: Prices of the key raw material such as pig iron and steel scrap are volatile. Although production is backed by orders, the company maintains sizeable inventory to accommodate its diverse product range and meet customer requirement. Because of limited pricing power with customers, AIWPL must absorb the fluctuations in raw material prices, thus weakening profitability.

Liquidity: Strong

Net cash accruals are expected to be over Rs 160 crore per annum against no debt obligation, over the medium term. This strong liquidity cushion should adequately cover regular capital expenditure (capex) and incremental working capital requirement. Furthermore, sparsely utilised bank limits of Rs. 125 crore and unencumbered liquid assets above Rs 30 crore, provide liquidity buffer. The promoters will continue to provide funding support by way of equity and unsecured loans.

The dispute between the Humbarwadi and the Hanji family members regarding the valuation of shares of the company is pending in Karnataka High Court. Around 10% stake of Mr Hanji (15% was paid earlier) is expected to be settled by the Humbarwadi family out of their own resources, once the valuation is finalised. Hence, the outcome is not expected to have any impact on the company's liquidity.

Outlook: Stable

CRISIL Ratings believes Ashok Iron will continue to benefit from its strong market position and healthy financial risk profile

Rating Sensitivity Factors

Upward factors

- Sustained revenue growth by 25-30% while margin sustaining above 22% leading to higher-than-expected cash accruals on a sustained basis
- Sustenance of strong financial risk profile and efficient working capital management

Downward factors

- Any sharp decline in revenue and/or margin declining to below 18%
- Stretched working capital cycle, with gross current assets increasing over 200 days, or debt-funded capex weakening the financial risk profile
- Any unfavourable outcome of the ongoing dispute having a significant impact on the liquidity and financial risk profile of the company

About the Company

Incorporated in 1981, Ashok Works manufactures iron-foundry products and machined components for diesel engines, tractors, automobiles and compressors. The company has seven plants, comprising three foundries and four machine shops. Its major products are cylinder blocks, cylinder heads, transmission cases, clutch housing, hydraulic-lift body, oil pans, axle housing, hub-front wheels, gear-box housing, compressors, water and lube pumps and crankshafts.

Key Financial Indicators

As on/for the period ended March 31	Unit	2022	2021
Operating income	Rs crore	783.72	615.33
Reported profit after tax	Rs crore	97.95	79.45
PAT margins	%	12.50	12.91
Adjusted Debt/Adjusted Networth	Times	0.07	0.04
Interest coverage	Times	89.91	144.00

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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	Working Capital Facility	NA	NA	NA	125	NA	CRISIL A+/Stable

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	125.0	CRISIL A+/Stable		--	23-05-22	CRISIL A/Stable	31-03-21	CRISIL A/Stable		--	CRISIL A-/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Working Capital Facility	95	HDFC Bank Limited	CRISIL A+/Stable
Working Capital Facility	30	HDFC Bank Limited	CRISIL A+/Stable

This Annexure has been updated on 07-Jun-2023 in line with the lender-wise facility details as on 28-Feb-2023 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Auto Component Suppliers
Understanding CRISILs Ratings and Rating Scales

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