RICO AUTO INDUSTRIES LIMITED
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CIN : L34300HR1983PLC023187

RAIL:SEC:2019 August 27, 2019

National Stock Exchange of India Limited
Exchange Plaza,
5th Floor, Plot No.C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai - 400051

Scrip Code - **RICOAUTO**

Sub : **Clarification on Credit Rating**

Dear Sir/Madam,

Please refer to your email dated 27th August, 2019, regarding clarification on credit rating, given below the reason for downward in rating published by the rating agency, India Ratings and Research Pvt. Ltd.:

Abstract from Rating Action Commentary:

Negative Outlook: *The Outlook revision reflects Ind-Ra's expectation of Rico's consolidated credit metrics, which deteriorated in FY19 and 1QFY20, to remain weak in FY20, driven by the overall decline in volumes witnessed by the two-wheeler (2W)/passenger vehicle (PV) segments over April-July 2019, which could result in continued negative operating leverage. Additionally, the company is in the midst of a capex programme and plans to incur capex of INR1,120 million in FY20, with additional debt of INR1,000 million. A mix of decline in profitability and capex leading to additional borrowings could keep the leverage at higher than expected levels. However, the management plans to offset the decline in domestic original equipment manufacturer (OEM) sales by focusing on new products and more than 20% yoy growth in export sales. Ind-Ra will continue to monitor the sales and profitability, along with the progress on the capex; any large deviations could result in a negative rating action.*

In FY19, Rico's net adjusted leverage (net adjusted debt/EBITDA) deteriorated to 2.4x (FY18: 1.9x) and interest coverage (EBITDA/interest expense) to 5.5x (FY18: 7.2x). In 1QFY20, the interest coverage plunged further to 3.9x(1QFY19: 7.1x). The deterioration, which was sharper than Ind-Ra's expectations, is attributed to a decline in EBITDA margin to 10.6% (FY18: 11.2%) and an increase in borrowings to INR3,800 million in FY19 (FY18: INR2,719 million). The decline in margins began from 4QFY19, wherein margins fell to 7.2% and then stood at 7.8% in 1QFY20. The decline in EBITDA margin was a function of the product mix with higher share of low-margin assembly business, lower absorption of fixed costs due to lower production and ramp-up costs of new facilities. The increase in borrowings was primarily driven by INR1,840 million capex incurred during FY19 (FY18: INR971 million), funded by borrowings of INR1,450 million.

Stretch in Liquidity: *Rico's average peak utilization of its fund-based working capital limits was 93.3% during the 12 months ended June 2019. The same was a result of a longer working capital cycle, which increased to 61 days in FY19 (FY18: 57 days, FY17: 49 days). The increase in working capital was driven by higher export sales as it has longer credit period. The company generated higher cash flow from operations of INR827 million in FY19 (FY18: INR755 million) due to higher absolute profitability, however, free cash flow continued to be negative at INR1,164 million (FY18: INR403 million), given the ongoing capex.*

The free cash flow is likely to remain negative in FY20 with moderation in profitability, increased share of exports and ongoing capex. Furthermore, as debt funding for majority of the capex in FY20 is yet to be tied up, any delays in the same could pressurise the company's liquidity in the short term. However, Rico's liquidity is supported by cash balances of INR261 million at FYE19. Its debt repayments for FY20 and FY21 are estimated at INR450 million and INR392 million, respectively. Ind-Ra will review Rico's credit rating post receipt of 2QFY20 financials and further clarity on debt tie-ups. About 57% of Rico's gross borrowings were classified as short-term debt, while 38% were forex-denominated, exposing the company to forex risk variation, but mitigated by the export revenue.

Thanking you,

Yours faithfully,
for **Rico Auto Industries Limited**

B.M. Jhamb
Company Secretary
FCS : 2446