

OMAX/STEX/2019-20/89

Date: 19th September, 2019

The Manager – Listing
National Stock Exchange of India Ltd.
Exchange Plaza,
Bandra-Kurla Complex, Bandra (E),
MUMBAI - 400 051

SUBJECT: Reply to your email dated 19th September, 2019

Dear Sir/Madam,

This is with reference to your email as captioned above. We wish to submit that following were driving factors of downgrading of the rating as published by rating agency "India Rating and Research":

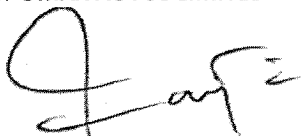
- 1) Increased leverage (high debt) due to commencement of capex for setting up two new projects which will generate meaningful contribution from FY21 onwards.
- 2) Weaker-than-expected operational performance, this is because as part of business rationalization process, Company has closed down 2W business and shifted focus to commercial vehicles and Railways business and in process of setting up two more new manufacturing units catering CV and Railways business from which meaningful contribution will come from FY21 onwards.
- 3) Revenue concentration Risk- Since Company has closed down 2W business and diversifying its revenue base from auto OEMs to Railway business (primary in the passenger coach segment) and CV business which will contribute over 80% of revenue and margins.

Further we are enclosing the full report as furnished by the rating agency which can also be accessed from the website of the agency at <https://www.indiaratings.co.in/PressRelease?pressReleaseID=38590&title=India-Ratings-Downgrades-Omax-Autos-to-%E2%80%98IND-BBB%2B%E2%80%99%3B-Outlook-Stable>

This is for your information and further dissemination please.

Thanking you.

Yours sincerely,
For **OMAX AUTOS LIMITED**



SANJEEB KUMAR SUBUDHI
(Company Secretary)



Encl: a/a

India Ratings and Research (Ind-Ra) has downgraded Omax Autos Limited's (Omax) Long-Term Issuer Rating to 'IND BBB+' from 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	FY26	INR1,553.3 (increased from INR710.7)	IND BBB+/Stable	Downgraded
Fund-based working capital limit	-	-	-	INR850 (increased from INR725)	IND BBB+/Stable /IND A2+	Downgraded
Non-fund-based working capital limit	-	-	-	INR350 (increased from INR150)	IND A2+	Downgraded

KEY RATING DRIVERS

Increased Leverage: The downgrade reflects deterioration in Omax's net leverage (net debt/EBITDA) above Ind-Ra's negative rating guideline of 2.5x in FY19 and likely further deterioration in FY20. Omax's FY19 net leverage deteriorated to 4.8x (FY18: 2.6x) owing to higher debt of INR2,137 million (FY18: INR1,467 million) driven by low profitability and commencement of capex for setting up new facilities.

Even after adjusting for one-off time employee terminal benefit costs for closure of the two wheeler (2W) plants, the adjusted net leverage ratio remains high at 4.0x in FY19 (FY18: 1.8x). With expansionary capex planned in FY20, higher working capital requirements arising from increasing contribution from railways segment, and moderate earnings, Omax's leverage is expected to increase further in FY20.

Evolving Business Profile: Omax is undergoing a business rationalisation process, as part of which, it is moving away from low-margin two-wheeler (2W) component segment (FY19: 29% of revenue, FY18: 54%) and expanding in higher-margin commercial vehicle (CV) component (FY19: 37%, FY18: 20%) and railways (FY19: 18%, FY18: 12%) segment. As part of this restructuring, Omax gradually closed down five of its 2W plants over past two years and is currently undertaking capex for setting up two new facilities in the CV and railways segment at a total cost of INR2,350 million.

The CV unit will manufacture long members catering to Tata Motors Limited's (TML) entire requirement in the Lucknow region, and is expected to commence operations in January 2020. Further, the railway unit will undertake heavy fabrication and is expected to commence operations in April 2020.

The capex is to be funded via already tied-up debt of INR1,450 million and rest via internal accruals and asset monetisation. The planned business restructuring is expected to improve margin profile of the company; however, a meaningful contribution from new facilities is likely to come only FY21 onwards.

Weaker-than-expected Operational Performance: Omax's revenue declined 15.9% yoy to INR9,916 million in FY19 as it continued with its rationalisation plan. EBITDA margins continued to remain sluggish (FY19: 4.0%; FY18: 3.5%) due to high one-time employee terminal benefit costs (FY19: INR83 million, FY18: INR179 million).

Adjusting for these one-off costs, adjusted EBITDA margin was flat at 4.9% in FY19 (FY18: 5.1%). While the benefit of the shift to higher-margin segments is visible in recent quarterly numbers, wherein adjusted EBITDA margin increased to 8.4% in 4QFY19 and 8.7% in 1QFY20, a sustained improvement in the margin, however, will remain a key rating sensitivity for the agency.

Liquidity Indicator: "Adequate": Omax's cash interest coverage (EBITDA/cash interest expense) adjusted for the retrenchment cost was healthy at 3.9x in FY19 (FY18: 3.3x) as about 31% of the company's balance sheet debt at FYE19 comprised the interest-free Pradeshia Industrial & Investment Corporation of Uttar Pradesh Limited (PICUP) loans. The working capital cycle was well managed with net working capital of 17 days in FY19 (FY18: 20 days), however, it is expected to elongate going forward as revenue contribution increases from the working capital intensive railway segment.

Omax classified certain 2W assets as held for sale as of FYE19, which largely contributed to negative cash flow from operations of INR1,155 million in FY19 (FY18: INR378 million). Further, the company recorded negative free cash flows of around INR1,815 million in FY19 (FY18: INR287 million) amid ongoing expansionary capex. Omax met its funding requirements via its cash and bank balances (FY19: INR210 million, FY18: INR388 million) as well as a new disbursement of PICUP loans and bank borrowings. The fund-based limits utilisation increased to an average of 64% over December 2018 to May 2019 from 1% over May to November 2018.

In 1QFY20, Omax sold part of its 2W operations/assets for INR1,300 million, and majority of the sale proceeds of around INR950 million were received and utilised to retire short-term loans from HeroMotorCorp (HMC) of INR741 million outstanding as of FYE19. The remaining proceeds are expected to flow in 2QFY20 and 3QFY20. Although Omax's cash flows are expected to be constrained over the near term due to moderate profitability, higher working capital requirements and large capex plan, Ind-Ra expects liquidity to be adequate on account of debt tie up for the capex, proceeds from asset monetisation and manageable debt repayments over FY20-21 of around INR210 million. Moreover, liquidity support could be available from further asset monetisation planned by the management. Furthermore, Omax could also be eligible to receive additional PICUP loans during the year.

Revenue Concentration: Omax faces significant revenue concentration risk, with the top 10 customers accounting for around 86% (FY18: 80%) of revenues in FY19. HMC has historically been the largest customer, however, with the company exiting 2W and focusing on CV business, TML's contribution grew significantly to 37% of revenue in FY19 (FY18: 20%). Furthermore, Omax is diversifying its revenue base from auto OEMs by increasing its railway business (primarily in the passenger coach segment). Going forward, TML and railways will contribute over 80% of revenue. The dependence on one large customer in the medium and heavy commercial vehicle segment, where the ongoing slowdown is more acute, could impact the company's revenue and profitability in the near term; however, the company's railway business is expected to support its operating performance.

Low Technology Oriented Products: Omax manufactures low complexity products compared to other ancillary players. This exposes Omax to increased competitive pressures as well as reduces its ability to absorb pricing pressure from OEMs. According to management, the company is shifting to more technologically advanced products, although the agency is yet to see a significant sustained impact of this on the financial performance. Omax's longstanding relationship with TML and its high share of business somewhat mitigates the risk.

RATING SENSITIVITIES

Positive: A significant increase in revenue and operating profitability, efficient working capital management, and/or asset monetisation, resulting in improvement in net leverage below 2.5x, on a sustained basis, could result in a positive rating action.

Negative: Inability to improve operating profitability, higher-than-expected increase in working capital cycle, or higher-than-expected debt-led capex, leading to a build-up in net leverage above 3.5x in FY21, could lead to a negative rating action.

COMPANY PROFILE

Founded in 1983, Omax, a publicly-listed company, where promoters own 57% stake, manufactures a variety of auto parts for the CV and passenger vehicles segments. It also makes end walls, under frame, front part, and bio-digester retention tank for railways. Omax exited the 2W segment in 4QFY19. It has five operational manufacturing plants, located in Bawal, Binola, Bangalore, Lucknow and Pant Nagar. It is setting up two more plants in Lucknow-Raebareli area to expand its CV and railways segment.

FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR million)	9,916	11,790
Adjusted EBITDA (INR million)*	484	597
Adjusted EBITDA margin (%)	4.9	5.1
Adjusted Interest coverage (x)	3.9	3.3
Adjusted Net leverage (x)	4.0	1.8
Source: Omax, Ind-Ra		
*Adjusted for one time employee terminal benefits cost of INR179 million and INR83 million in FY18 and FY19, respectively		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	20 August 2018	28 June 2017	7 June 2016
Issuer rating	Long-term	-	IND BBB+/Stable	IND A-/Stable	IND A-/Negative	IND A-/Stable
Term loans	Long-term	INR1,553.3	IND BBB+/Stable	IND A-/Stable	IND A-/Negative	IND A-/Stable
Fund-based working capital limits	Long-term/Short-term	INR850	IND BBB+/Stable/IND A2+	IND A-/Stable/IND A1	IND A-/Negative/IND A1	IND A-/Stable/IND A1
Non-fund-based working capital limits	Short-term	INR350	IND A2+	IND A1	IND A1	IND A1

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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