

August 30, 2022

Sundaram Industries Private Limited: [ICRA]A(Stable) /[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Term loans	76.85	[ICRA]A (Stable) / assigned
Long-term: Fund-based facilities	73.37	[ICRA]A (Stable) / assigned
Short-term: Non-fund based facilities	45.00	[ICRA]A2+ / assigned
Total	195.22	

*Instrument details are provided in Annexure-1

Rationale,

The assigned ratings draw support from the established presence of Sundaram Industries Private Limited ('SIPL'/'company') as tier-2 component supplier in the automotive industry, leading player in the organised tyre retreading segment, diversified client profile and vast experience of the management. The ratings also consider SIPL's financial profile marked by an improving scale of operations with ~40% revenue growth in FY2022, and comfortable capital structure of 0.7 times in FY2022. The ratings derive comfort from SIPL's strong parentage being part of the TS Rajam group and with TVS Mobility Private Limited (TVS Mobility) holding 100% stake in the entity. These strengths are, however, offset by vulnerability of earnings to the cyclicity in automotive business, low profit margins, susceptibility to the fluctuations in prices of raw materials (namely rubber, carbon black etc.,) and foreign exchange rates.

The stable outlook on the long-term rating reflects ICRA's expectation of a sustained scale up of its operations supported by business profile and strong parentage being part of the TS Rajam group.

Key rating drivers and their description

Credit strengths

Established track record of operations as a tier II component supplier - SIPL has an established presence and acts as a tier-II component supplier in the Indian automotive industry. It operates through three divisions, namely rubber, tyre solutions, and solid tyres. It manufactures moulded rubber products that find application in auto and industrial product segments; provides retreading for commercial vehicle, tractors, off-the-road and passenger vehicles tyres; and also manufactures industrial solid tyres. Solid tyre division contributes ~45% of revenues while other two segments account for ~30% each. Given its long presence in these product segments, SIPL's business profile remains stable.

Healthy revenue growth in FY2022 and comfortable capital structure - SIPL's operating income grew by ~40% in FY2022 driven by increase in revenue across divisions especially from the solid tyre division. While the margins were affected due to the elevated input prices and short-term debt increased in FY2022 due to elongation in working capital cycle, the company's gearing and DSCR levels are comfortable at 0.7 and 3.8 times respectively.

Strong parentage - In February 2022, the TVS group underwent a restructuring wherein the ownership and management of various entities of TVS group were aligned with specific family groups. Following the restructuring, SIPL is currently part of the TS Rajam group and its profile is supported by a strong parentage with entire stake held by TVS Mobility, which provides an exceptional financial flexibility with lenders.

Credit challenges

Low profit margins – SIPL’s operating margins have been lower and contracted sharply in FY2022 on the back of the sharp rise in raw material prices (namely rubber, carbon black etc) and other operating costs, apart from competitive pressures.

Exposure to cyclical in automotive industry - Given its large dependence on automotive segment, SIPL’s revenues and earnings are susceptible to the cyclical in automotive demand from both domestic and export markets. Any major slowdown in the auto industry has an impact on its business, although a part of its business is partly insulated by its presence in replacement segment.

Operating margins susceptible to fluctuations in raw material prices and forex movements - SIPL’s profit margins from operations is low due to relatively low value addition of products and limited pricing flexibility, given the intense competition and susceptibility to volatility in prices of synthetic and natural rubber and movement in forex rates. While the indexing of input price and partial hedging mitigates the risk to an extent, any sharp movement in raw material prices and forex rate shall continue to influence its margins.

Liquidity position: Adequate

SIPL’s liquidity is expected to remain adequate. It has repayment obligations of Rs. 3.9 crore and capex plans of over Rs. 70 crore in FY2023. Against this, it has undrawn loans of Rs. 60.8 crore and buffer against working capital limits of ~Rs. 20 crore. SIPL also had cash and cash equivalents of Rs. 13.5 crore as on March 31, 2022 and is estimated to generate retained cash flows of Rs. 8-10 crore in FY2023.

Rating Sensitivities

Positive factors – Significant improvement in SIPL’s scale of operations along with improvement in margins and coverage metrics. Material improvement in the credit profile of the parent entity, shall also be a positive factor.

Negative factors – The rating could also be downgraded if SIPL’s revenues and margins deteriorate on a sustained basis, thus stretching its cash flows, or any major debt-funded capital expenditure, leads to weakening of its credit metrics on a sustained basis. Any significant weakening of the parent’s credit profile shall be a trigger for negative rating action.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for auto component suppliers
Parent/Group support	Parent Company: TVS Mobility Private Limited: The ratings assigned to SIPL factors in the likelihood of support from its parent.
Consolidation/Standalone	Standalone

About the Company

Sundaram Industries Private Limited (SIPL) was one of the group companies of T V Sundaram Iyengar and Sons Private Limited (TVSI), was incorporated in the year 1943 in Pudukottai, Tamil Nadu. The company was holding stake in multiple entities in the TVS Group. Post restructuring of TVS Group, shareholding of SIPL was moved to TVS Mobility Private Limited (TVS Mobility) which in turn is wholly held by members of the TS Rajam family group. Currently the entity is involved in manufacturing of rubber products, tyre retreading services, as well as sale of industrial tyres.

Key financial indicators (audited)

Standalone	FY2021	FY2022 (provisional)
Operating income (Rs. crore)	473.6	657.2
PAT (Rs. crore)	16.4	9.0
OPBDIT/OI (%)	6.7%	3.5%
OPBDIT/OI (%) (Adjusted for dividend income)	2.1%	2.2%
PAT/OI	3.5%	1.4%
Total outside liabilities/Tangible net worth (times)	0.4	1.7
Total debt/OPBDIT (times)	2.6	4.9
Interest coverage (times)	7.7	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years*		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					August 30, 2022			
1	Term Loan	Long-term	76.85	15.30	[ICRA]A(Stable)	-	-	-
2	Fund-Based Limits	Long-term	73.37	52.67	[ICRA]A(Stable)			
3	Non-Fund Based Limits	Short-term	45.00	28.20	[ICRA]A2+			

*Following the composite scheme of amalgamation and arrangement towards group restructuring approved by the NCLT dated December 6, 2021, and the demerger of operations on February 4, 2022, the ratings on erstwhile Sundaram Industries Private Limited was withdrawn by ICRA on April 04, 2022.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund-Based Limits	Simple
Non-Fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2021	NA	FY2030	76.85	[ICRA]A(Stable)
NA	Long-Term Fund Based	-	-	-	73.37	[ICRA]A(Stable)
NA	Short-term Non-Fund Based	-	-	-	45.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - NA

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Branches



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