January 30, 2025

Sundaram Industries Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – term loans	62.22	96.14	[ICRA]A (Positive); reaffirmed and assigned for enhanced amount
Long-term – fund-based facilities	120.00	130.00	[ICRA]A (Positive); reaffirmed and assigned for enhanced amount
Short-term – non-fund-based facilities	64.00	78.00	[ICRA]A2+; reaffirmed and assigned for enhanced amount
Total	**246.22**	**304.14**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation and continuation of the Positive outlook reflect the expected improvement in Sundaram Industries Private Limited's (SIPL) financial profile over the medium term, supported by its strong business profile and likely improvement in debt protection metrics. SIPL's standalone operations are characterised by its established presence as a tier-2 component supplier in the automotive industry, one of the leading players in the organised tyre retreading segment and presence in overseas markets through its solid tyre segment. The company's standalone revenues witnessed a marginal growth of ~2% in FY2024 on the back of healthy revenue increase in the rubber and tyre solutions division. The margins improved to 4.7% in FY2024 from 4.3% in FY2023 owing to reduced commodity prices. For FY2025, the company is expected to witness a high single-digit revenue growth on the back of improved orders, realisations and new product and customer additions, while the operating margins are expected to moderate marginally to 4.0-4.5% on the back of elevated input prices (especially rubber). However, margins are likely to improve, going forward, on the back of expected increase in revenues in the margin-accretive solid tyre segment. ICRA notes the ongoing restructuring plans, which involve planned demerger of SIPL's rubber division and Shore Auto Rubber Exports Private Limited into a new entity. The restructuring is aimed at streamlining operations within the Group, though National Company Law Tribunal and other regulatory approvals are awaited. ICRA will continue to monitor developments on this front and assess the impact of the same on the company's credit profile.

SIPL's business profile is also strengthened by its subsidiaries, which were floated in the recent years and most of which operate in different businesses. While the subsidiaries' shares of consolidated revenues are currently low, its contribution to earnings is significant. The company's consolidated revenues witnessed a steady growth of ~10%, despite a slowdown witnessed in the global markets and the margins improved to 9.4% in FY2024 from 7.9% in FY2023 on the back of rollback of both logistics and raw material costs, along with operational efficiency. For FY2025, the company is expected to witness a double-digit growth on the back of improved orders, realisations and new product and customer additions, while the operating margins are expected to moderate marginally to 8.0-8.5% on the back of elevated input prices. SIPL's financial profile is characterised by a sustained growth in revenues and comfortable capital structure with total debt to OPBITDA of ~3.3 times in FY2024. The ratings continue to derive comfort from the vast experience of the promoter's family in the automotive industry and SIPL's strong parentage as it a part of the TS Rajam Group with TVS Mobility Private Limited (TVS Mobility) holding a 100% stake in the entity. ICRA notes the fund infusion of Rs. 46.5 crore in SIPL by the parent over the last two years.

These strengths are, however, offset by the vulnerability of SIPL's earnings to the cyclicality in the automotive business, fluctuations in prices of raw materials (namely rubber and carbon black) and foreign exchange (forex) rates. The ratings are also tempered by the relatively lower operating margins in the standalone business, which affect debt coverage metrics. SIPL's ability to improve its debt protection metrics and strengthen the liquidity position will be closely monitored.

Key rating drivers and their description

Credit strengths

Established track record of operations – SIPL has a long and established presence in the Indian automotive industry. It operates through three divisions, namely rubber, tyre solutions, and solid tyres. In the standalone business, it manufactures moulded rubber products that find applications in auto and industrial product segments, provides retreading for commercial vehicle, tractor, off-road vehicle and passenger vehicle tyres, and manufactures industrial solid tyres and defence kits. The company derives almost equal share of revenues from its three divisions in the standalone operations. It also has three domestic and two overseas subsidiaries, which are in the businesses of manufacturing solid tyres, battery chargers, and automotive reinforced silicone hoses, etc. ICRA notes that SIPL's rubber division and Shore Auto Exports Private Limited are proposed to be demerged into a different entity, subject to NCLT and other regulatory approvals. The impact of the same on SIPL's credit profile remains to be seen.

Improving business profile, earnings profile and comfortable capital structure – SIPL's consolidated profile is strengthened by its subsidiaries, which were floated in the recent years and most of which operate in different businesses. Additionally, these subsidiaries also command higher operating margins and are expected to book stable revenue and earnings growth on the back of established relationships with customers and favourable industry outlook. SIPL's financial profile is characterised by sustained growth in revenues and comfortable capital structure (consolidated TD/OPBITDA of ~3.3 times in FY2024). On the margin front, against a 4.7% standalone operating margin in FY2024), its consolidated margins stood higher at ~9.4%, supported by the margin-accretive business profile of its subsidiaries.

Strong parentage – In February 2022, the TVS Group underwent a restructuring exercise wherein the ownership and management of various entities were aligned with specific family groups. Following the restructuring, SIPL became a part of the TS Rajam Group. Hence, its profile is supported by a strong parentage with TVS Mobility holding a 100% stake in the entity. ICRA notes the Rs. 15.0-crore fund infusion in SIPL by the parent in the current fiscal.

Credit challenges

Exposure to cyclicality in automotive industry – Given its large dependence on the automotive segment, SIPL's revenues and earnings are susceptible to the cyclicality in automotive demand from both domestic and export markets. Any major slowdown in the auto industry has an impact on its business, although a large part of its business is partly insulated by its presence in the replacement segment. Slowdown in global markets has also affected the company's revenues in the recent quarters, especially in the solid tyre segment.

Operating margins susceptible to fluctuations in raw material prices and forex movements – SIPL's profit margin from the standalone operation is low due to relatively lower value addition of products and limited pricing flexibility, given the intense competition and susceptibility to volatility in prices of synthetic and natural rubber, as well as the forex movement. While the indexing of input price and partial hedging mitigate the risk to an extent, any sharp movement in raw material prices and forex rates will continue to influence its margins. Meaningful increase in standalone margins will be imperative to improve the consolidated margins and debt coverage metrics, going forward.

Liquidity position: Adequate

SIPL's liquidity is **adequate** with estimated retained cash flows of Rs. 25-35 crore in FY2025, along with cash balances of Rs. 45.9 crore, as on March 31, 2024, and buffer against working capital limits of ~Rs. 26.0 crore, as of October 2024. In relation to these sources of cash, SIPL has capex commitments of Rs. 40-50 crore in FY2025 and FY2026 with debt repayment obligations of ~Rs. 35 crore in the next 12 months. ICRA also notes the fund infusion of Rs. 15.0 crore by the parent in the current fiscal.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant improvement in SIPL's scale of operations along with a sustained improvement in profit margins, debt coverage metrics and liquidity profile. A material improvement in the credit profile of the parent entity is also a positive factor.

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

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
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	The ratings are based on the consolidated financial profile of the company.

About the company

Sundaram Industries Private Limited was incorporated at Pudukkottai, Tamil Nadu, in 1943. The company held stakes in multiple entities in the TVS Group. After the restructuring of the TVS Group in FY2022, the shareholding of SIPL was moved to TVS Mobility, which in turn is wholly held by members of the TS Rajam family group. The entity is involved in manufacturing rubber products, tyre retreading services, as well as sale of industrial tyres. TVS Mobility is a part of the T S Rajam Group, a faction of the larger TVS Group, an established name in the domestic auto ancillary industry.

Key financial indicators (audited)

	Standalone		Consolidated	
SIPL	**FY2023**	**FY2024**	**FY2023**	**FY2024**
Operating income	810.5	825.7	897.7	988.5
PAT	3.9	7.3	17.9	24.5
OPBDIT/OI	4.3%	4.7%	7.9%	9.4%
PAT/OI	0.5%	0.9%	2.0%	2.5%
Total outside liabilities/Tangible net worth (times)	2.7	2.5	1.9	1.8
Total debt/OPBDIT (times)	6.3	7.1	4.0	3.3
Interest coverage (times)	2.4	1.5	4.0	3.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
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			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Jan 30, 2025	Date	Rating	Date	Rating	Date	Rating
Term loans	Long-term	96.14	[ICRA]A (Positive)	Nov 29, 2023	[ICRA]A (Positive)	Aug 30, 2022	[ICRA]A (Stable)	-	-
Fund-based facilities	Long-term	130.00	[ICRA]A (Positive)	Nov 29, 2023	[ICRA]A (Positive)	Aug 30, 2022	[ICRA]A (Stable)	-	-
Non-fund-based facilities	Short-term	78.00	[ICRA]A2+	Nov 29, 2023	[ICRA]A2+	Aug 30, 2022	[ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-Term – term loans	Simple
Long-Term – fund-based facilities	Simple
Short-Term – non-fund-based facilities	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: Click here

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	96.14	[ICRA]A (Positive)
NA	Long-Term Fund Based	-	-	-	130.00	[ICRA]A (Positive)
NA	Short-term Non-Fund Based	-	-	-	78.00	[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

Company Name	Ownership	Consolidation Approach
Sundaram Industries Private Limited	100.00%	Full Consolidation
Sundaram Lanka Tyres Limited	100.00%	Full Consolidation
Sun Industrial Tyres Private Limited	100.00%	Full Consolidation
Sirius Controls Private Limited	100.00%	Full Consolidation
Shore Auto Rubber Exports Private Limited	100.00%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Nikhil Parakh
+91 44 4596 4321
nikhil.parakh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches