SML Isuzu Limited

Instrument	Amount	Rating Action
	(Rs. Crore)	September 2016
Cash Credit	25.00	Upgraded to [ICRA]AA from [ICRA]AA-
Working Capital Demand Loan	120.00	Reaffirmed at [ICRA]A1+
Letter of Credit	28.00	Reaffirmed at [ICRA]A1+
Bank Guarantee	20.00	Reaffirmed at [ICRA]A1+
Bill Discounting	5.00	Reaffirmed at [ICRA]A1+
Commercial Paper/ Short Term Debt Programme	50.00	Reaffirmed at [ICRA]A1+

ICRA has upgraded the long-term rating from [ICRA]AA- (pronounced ICRA double A minus) to [ICRA]AA (pronounced ICRA double A) and reaffirmed the short-term rating at [ICRA]A1+ (ICRA A one plus) for the bank facilities of SML Isuzu Limited (SML) [†]. The outlook on the long-term rating is "Stable". The total amount of bank facilities is Rs. 198 Crore. ICRA has also reaffirmed the rating for the Rs. 50 Crore Commercial Paper/ Short Term Debt (CP/ STD) Programme of SML at [ICRA]A1+ (pronounced ICRA A one plus).

The rating upgrade takes into consideration SML Isuzu's improving market share in its addressable segment of the domestic Commercial Vehicle Industry and expectations that the company would continue to maintain is comfortable financial profile over the medium-term aided by its strong position in the 5-12t bus segment, broadening product portfolio, especially in the truck segment and healthy cash flow generation to meet ongoing capital expenditure plans. Over the past five years (i.e. FY 2012-16), SML's market share in the addressable segment (i.e. 5-12T) has improved on account of new model launches and greater focus on marketing and sales activities. Some of the recent model launches, especially in the truck segment have helped the company to plug portfolio gaps and improve its market share in LCVs (i.e. 5-7.5t) where it had relatively low presence till few years back. Despite rising competitive intensity, SML also has managed to maintain its market share in the bus segment owing to its strong brand positioning in school and executive coach segment.

Over the years, SML's credit metrics and liquidity profile have remained comfortable as reflected by limited dependence on external borrowings to fund its capital expenditure plans. Given the higher share of bus sales, especially school & college segment, the company generates majority of its revenues in the first six months of the calendar year (i.e. January-June). While this adds lumpiness to its cash flows, the company maintains adequate cash balances and un-drawn working capital facility to support its liquidity for rest of the year.

SML is currently in the process of investing Rs. 220 crore for technology, product development and up-gradation of plant infrastructure to improve manufacturing efficiency. Further, the company has recently decided to enhance its production capacity from 18,000 units p.a. to 24,000 units pa by setting up an additional assembly line at an estimated cost of Rs. 30 crore. . In addition, the company is in the process of revamping its sales and service network. The capex will be funded through internal accruals and need based long-term fully-hedged ECBs. ICRA believes that the company would continue to maintain its strong credit metrics over the medium-term despite recently announced capital expenditure plans.

In line with recovery in the Commercial Vehicle industry, SML also witnessed uptick in demand during FY 2016 as reflected by a growth of 8% in volumes. However, in contrast to underlying industry performance, the company's market share in its core segment viz. buses declined marginally in FY 2016. This was primarily due to timely adherence to the new bus-body code, which made SML's vehicles less price-competitive in the market as the new bus-body got deferred. However, after switching back to the existing manufacturing norms, the company has managed to regain its market share in the bus segment in YTD FY2017. In 5m FY 2017, the company's volumes have grown by 26% while industry growth has been around 8%.

[†]"For complete rating definition please refer to the ICRA website www.icra.in or any of the ICRA Rating Publications"

Overall, SML Isuzu's business profile is supported by its strong brand equity in the school bus segment, its technology tie-up with Isuzu Motors (which also owns 15% stake in the company) and expanding product-cum-distribution network. SML is also majorly owned by Sumitomo Corporation, which owns 44% stake in the company and provides managerial support and guidance. Although Isuzu's presence in the company is expected to translate into greater technical support, the progress on new model launches (on Isuzu's platforms) has been relatively behind schedule and has not helped the company in expanding its addressable market. With technological advancements in the domestic CV industry and Government's focus on introducing BS-VI emission norms by 2020, technology collaboration with Isuzu will become more important for the company going forward.

SML's operates in the niche segment of 5-12t segment, which limits its product portfolio and exposes the company to any change in market preference towards other segments. Further, its dealer network also remains relatively small that constrains scalability of operations. ICRA also factors in SML's vulnerability to cyclicality associated with the CV industry. The risk is, however, mitigated to an extent due to SML's greater dependence on passenger carriers, especially school buses segment, on account of the segment's relatively more stable demand pattern and the an overall recovery witnessed in the domestic CV industry.

SML is currently working on plans to expand its distribution presence along with its re-branding of showrooms, investment to modify cabin designs that would enhance marketability and introduce new products, which are likely to support its business growth and help maintain its market position over the medium term. The ability to maintain profitability and debt indicators in lieu of the expected rise in external borrowings to support the ongoing investment plans and expected rise in scale of operations would remain the key rating sensitivities going forward.

Recent Results

SML recorded an operating income of Rs. 1,164.3 Crore with an OPBIDTA of Rs. 84.8 Crore and PAT of Rs. 51.2 Crore in FY2016 as compared to operating income of Rs. 1,105.3 Crore, OPBIDTA of Rs. 69.0 and PAT of Rs. 36.9 Crore in FY2015. As per the published financials, SML recorded an operating income of Rs 463.2 Crore with an OPBIDTA of Rs. 61.2 Crore and PAT of Rs. 41.1 Crore in Q1 FY2017 as compared to operating income of Rs. 383.2 Crore, OPBIDTA of Rs. 42.6 and PAT of Rs. 29.1 Crore in Q1 FY2016.

Company Profile

Incorporated in 1983, SML Isuzu Limited (SML, formerly Swaraj Mazda Limited) was initially set up under the name of Swaraj Vehicles Limited for the manufacture of Light Commercial Vehicles (LCVs). In 1984, the company was promoted by Punjab Tractors Limited (PTL) in technical and financial collaboration with Mazda Motor Corporation, Japan and Sumitomo Corporation, Japan. The technical collaboration agreement with Mazda expired in 2004 and Mazda exited by selling off its stake to Sumitomo Corporation. Around the same time, SML entered into a technical collaboration agreement with Isuzu Motors, Japan. SML operates in the Light Commercial Vehicle (LCV) and Medium Commercial vehicle (MCV) segments of the automobile industry. The company has a manufacturing facility in Nawanshahar, Punjab with a capacity to manufacture 18,000 units and has a product portfolio comprising of buses, trucks (including tippers) and specific application vehicles.

September 2016

For further details, please contact:
Analyst Contacts:
Mr. Subrata Ray (Tel. No. +91 22 6114 3408)
subrata@icraindia.com

Shamsher Dewan (Tel No. +91-124-4545 328)
shamsherd@icraindia.com

Natasha Sonawane (Tel No. +91-124- 4545 826)
natasha.sonawane@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	