

October 21, 2022

Rockman Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	137.50	200.00	[ICRA]AA (Negative); Reaffirmed
Long-term Fund-based – Term Loan	332.49	293.00	[ICRA]AA (Negative); Reaffirmed
Short -term – Fund/ Non-Fund Based Limits	110.00	50.00	[ICRA]A1+; Reaffirmed
Short -term – Fund Based Limits	105.00	75.00	[ICRA]A1+; Reaffirmed
Short -term – Non-Fund Based Limits	0.00	90.00	[ICRA]A1+; Reaffirmed
Long Term/Short -term – Unallocated Limits	50.00	26.99	[ICRA]AA (Negative)/[ICRA]A1+; Reaffirmed
Total	734.99	734.99	
Commercial Paper Programme	75.00	75.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings continues to favourably factor in Rockman Industries Limited’s (Rockman) established business position as a leading supplier of aluminium die-cast components (including alloy wheels) and strong business linkage with its key customer and Group company—Hero MotoCorp Limited (HMCL; rated [ICRA]AAA(Stable)/A1+). Rockman is the leading supplier of alloy wheels and other aluminium die-cast engine components such as crank cases, cylinder heads and flange panels to HMCL, with its major share of business with the original equipment manufacturers (OEM). In FY2022, HMCL accounted for ~70% of Rockman’s revenues, leading to customer and segment concentration risks. Nevertheless, the risk is mitigated to an extent by HMCL’s position as a leading 2W manufacturer and Rockman’s track record of a strong share of business with it. Further, ICRA notes that the customer concentration has been reducing over the years (from 80% in FY2019) aided by the company’s diversification initiatives.

As a part of its business expansion and diversification plans, Rockman had set up two greenfield units (one each in Gujarat and Andhra Pradesh) at an investment of ~Rs. 880 crore (from FY2019 to FY2021), a proportion of which was debt funded. While Rockman’s financial metrics were negatively impacted by a delayed ramp up in the newly set up plants driven by an industry slowdown amidst the pandemic, a healthy growth in the company’s revenues (~30% in FY2022) supported its cash flows to an extent. In H2 FY2022, Rockman’s margins were also significantly impacted by inflationary pressures. To reduce the impact of volatility of raw material prices on its margins, Rockman has entered into an agreement with a key customer, wherein the latter would procure the raw materials for Rockman. ICRA notes that this will reduce the impact of volatility in raw material prices on Rockman’s margins and the revenues emanating from the customer, even as the earnings are not impacted. Rockman has also successfully completed negotiations with another customer on retrospective recovery of price increases, which should support margins, going forward. The utilisation levels at Rockman’s various plants have witnessed sequential improvement in utilization levels over the last few quarters (PV alloy wheel plant reached EBITDA breakeven in Q1FY2023), which should improve further given the uptrend seen in domestic sales in the automotive segment in recent months. Coupled with the moderation in raw material prices, this is expected to aid improvement in profitability over the near to medium term.

The continuation of a Negative outlook on Rockman’s long-term rating reflects ICRA’s expectation that any further delay in the ramp up of operations at its recently set up plants (Gujarat and Andhra Pradesh), or a continuation of weak demand trends in

the two-wheeler (2W) industry, could constrain an improvement in the company's debt coverage metrics. Even as the company was able to secure business from multiple new OEMs, in the 2W as well as passenger vehicle (PV) space, the ramp up in supplies from the new plants has been slower than initially expected, led by multiple factors viz., weak demand trends in the 2W segment, Ford India Private Limited's decision to exit the Indian market, and semiconductor chip shortages impacting offtake in the PV segment. While the anti-dumping duty (ADD) on PV alloy wheels (valid till 2024), trend in localising alloy wheel procurement by PV and 2W OEMs, and new business wins from several prominent electric-2W (e-2W) manufacturers will support Rockman's near-term business prospects, a delay in ramp up of supplies could constrain the improvement in its credit metrics and remains a key monitorable.

Key rating drivers and their description

Credit strengths

Strong and well-established relationship with HMCL – Rockman supplies aluminium die-casting components such as alloy wheels, cylinder heads, crank cases, and flange panels, among others, to HMCL, across its manufacturing facilities. The company set up a new plant in Gujarat to cater to HMCL's Gujarat plant (in FY2020), which helped strengthen its share of business with the OEM. Overall, it is estimated to have 45-50% share of business with HMCL, which is likely to increase, going forward, benefitting from the industry-wide trend of alloy wheel localisation.

Leading manufacturer of 2W alloy wheels in India – Rockman is the largest domestic manufacturers of 2W alloy wheels in India, with an installed annual manufacturing capacity of ~15 million. At present, it enjoys the majority share of business with HMCL, and the company is in the process of increasing its business with other 2W OEMs in India. The OEMs are increasingly opting for localising their alloy wheel procurement, given the increased competitiveness of domestic alloy wheel supplies against imports. Accordingly, companies such as Rockman are likely to benefit from the improved order inflows.

Diversification initiatives and capacity expansion to support medium-term business profile – As a part of Rockman's diversification strategies, it has commenced supplies of 2W and PV alloy wheels to new customers over the last few years. It has also been awarded several new businesses for other casting-based components from established OEMs and several prominent e-2W manufacturers. Ramp up in these supplies over the medium term will help reduce customer-concentration risks and increase the share of revenues from the PV industry, thereby reducing Rockman's exposure to the 2W industry.

Comfortable financial risk profile with healthy capital structure; financial flexibility supported by Group linkages – The company has a comfortable financial risk profile supported by its large scale of operations and healthy cash accruals. Despite some moderation in credit metrics in recent years (total debt/OPBITDA at 2.3 times and interest cover at 5.4 times in FY2022) because of the sizeable debt-funded capex for the greenfield facilities and weak 2W industry performance, the credit metrics are expected to gradually improve over the medium term, aided by an improvement in earnings and scheduled repayment of term loans. Moreover, a major part of the debt-funded capex has been largely completed, and capex outgo is likely to moderate, going forward. Additionally, with strong inter-group linkages as part of the Hero Group, the company maintains healthy financial flexibility in accessing financial institutions and the debt market for any funding requirements.

Credit challenges

Customer and segment-concentration risks; diversification initiatives to mitigate the same – HMCL drove approximately ~70% of Rockman's revenues in FY2022. Nevertheless, the customer concentration has been reducing over the years (from 80% in FY2019) aided by the company's diversification initiatives. In addition, the customer concentration risk is mitigated to an extent by HMCL's strong market position in the domestic 2W market and the company's strategic importance as a key vendor of aluminium die-cast components to the OEM. Aided by a ramp up in supplies for various new businesses, the company's customer and segment concentration risks are expected to further reduce over the medium term.

Slower-than-expected ramp up from debt-funded greenfield expansions led to moderation in return indicators and credit metrics – Rockman's profitability and earnings remained weaker than initially expected in FY2022, owing to raw material prices

hardening. Slower ramp up at the plants (especially the PV alloy wheel plant), coupled with sub-optimal utilisation at the existing facilities (due to the pandemic, semiconductor chip shortages and weak demand in the 2W industry), exerted pressure on the profitability and return indicators to an extent. Nevertheless, reduced impact from volatility in raw material prices, retrospective recovery of price impact in some cases, confirmed orders-in-hand, trend towards import substitution for alloy wheels, as well as business wins from established 2W OEMs and e-2W manufacturers offer comfort regarding a ramp up of supplies from its various plants, going forward, and an improvement in earnings. The company's credit metrics and return indicators are likely to improve over the medium term as supplies from the new plants reach near optimal levels.

Liquidity position: Adequate

Rockman's liquidity position is adequate, supported by availability of unutilised working capital limits (average buffer of ~Rs. 65 crore over the past 12 months ended June 2022) and comfortable cash flows from operations. Additionally, it maintains healthy financial flexibility as part of the larger Hero Group. Against the available sources of cash, the company has debt repayments of ~Rs. 108 crore in FY2023 and an estimated capex requirement of Rs. 75-90 crore p.a., which are expected to be met from internal accruals, available lines of credit and additional term loans.

Rating sensitivities

Positive factors – An upgrade in the ratings is unlikely in the near term. Nonetheless, material diversification in segment mix with reduced dependence on the 2W segment would augur well for a positive rating movement over the medium term. RoCE and TD/OPBDIT improving to 20% and below 1.0 time, respectively, on a sustained basis will be considered favourably for a rating upgrade.

Negative factors – ICRA could downgrade Rockman's ratings in case of a further delay in ramp up of sales from its new plants, resulting in weakening of credit metrics. Specific credit metrics that could trigger a downward rating include TD/OPBDIT remaining at elevated levels above 2.0 times on a sustained basis. Sizeable incremental investments in the non-automotive business leading to deterioration in the credit metrics could also exert downward pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rockman. As on March 31, 2022, the company had a subsidiary and an associate, as enlisted in Annexure-2.

About the company

Established in 1961, Rockman Industries Limited is one of the leading auto component manufacturing entities of the Hero Group with presence in aluminium die-cast components. Rockman is the major supplier of key engine components and alloy wheels to HMCL, which accounted for about ~70% of its turnover in FY2022. The company caters to around 45-50% of HMCL's alloy wheel requirement and is also one of the leading suppliers of other aluminium die-cast components such as crank case, crank case covers and cylinder heads.

Over the past few years, the company has implemented a strategy to diversify its exposure and has made both organic and inorganic investments to secure business outside the 2W industry. Some of its key inorganic investments include Rockman Industries Chennai Private Limited (RICPL; in 2014) and Moldex Composites Private Limited (2018). RICPL, involved in aluminium die-casting for customers such as Ford and Bosch, was subsequently amalgamated with Rockman with effect from

April 1, 2018. The other acquired entity, Moldex, later rechristened as Rockman Advanced Composites Private Limited [rated [ICRA]BBB-(Stable)], manufactures carbon composites for super luxury and racing vehicles.

Rockman has invested in non-automotive businesses with focus on electronics and semiconductor testing facilities. These investments were held by its 45% stake in its co-group company, Hero Electronix Private Limited (HEPL). The company is currently not listed, and its promoters (Hero Group) own 100% stake.

Rockman's manufacturing facilities at Ludhiana (Punjab), Bawal (Haryana), Haridwar (Uttaranchal) and Chennai (Tamil Nadu) produce a range of aluminium die-cast components using high pressure, low pressure and gravity die-casting technologies. Additionally, it has a dedicated auto-chain manufacturing plant at Mangli (Punjab). The company has also set up greenfield facilities in Andhra Pradesh (for manufacturing alloy wheels for PV and 2W OEMs) and Gujarat at a cumulative investment of more than Rs. 880 crore during FY2019–FY2021.

Key financial indicators (audited)

Rockman Consolidated	FY2021	FY2022
Operating income	2,358.4	3,066.4
PAT	18.3	41.7
OPBDIT/OI	8.7%	7.7%
PAT/OI	0.8%	1.4%
Total outside liabilities/Tangible net worth (times)	1.0	1.0
Total debt/OPBDIT (times)	2.9	2.3
Interest coverage (times)	4.5	5.4

Note: Amount in Rs. crore:

Source: Company; All calculations are as per ICRA Research 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	Type	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
							October 21, 2022	Feb 25, 2022	
1	Cash Credit	Long Term	200.00	NA	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Term Loans	Long Term	293.00	259.50	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Fund/ Non Fund-based Limits	Short Term	50.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based Limits	Short Term	75.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

5	Non Fund Based Limits	Short Term	90.00	NA	[ICRA]A1+	-	-	-	-
6	Unallocated Limits	Long Term and Short Term	26.99	NA	[ICRA]AA (Negative)/ A1+	[ICRA]AA (Negative)/ A1+	[ICRA]AA (Stable)/ A1+	[ICRA]AA (Stable)/ A1+	[ICRA]AA (Stable)/ A1+
7	Commercial Paper Programme	Short Term	75.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short -term – Fund/ Non-Fund based Limits	Simple
Short -term – Fund-based Limits	Simple
Short -term – Non Fund-based Limits	Very Simple
Long-term/ Short -term – Unallocated Limits	Not applicable
Short -term – Commercial Paper Programme	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-I	Aug 2019	NA	FY2026	68.00	[ICRA]AA(Negative)
NA	Term Loan-II	Jan 2019	NA	FY2026	225.00	[ICRA]AA(Negative)
NA	Cash Credit	NA	NA	NA	200.00	[ICRA]AA(Negative)
NA	Fund Based Limits	NA	NA	NA	75.00	[ICRA]A1+
NA	Fund/ Non Fund-based Limits	NA	NA	NA	50.00	[ICRA]A1+
NA	Non Fund-based Limits	NA	NA	NA	90.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	26.99	[ICRA]AA(Negative)/A1+
NA	Commercial Paper Programme*	Yet to be placed			75.00	[ICRA]A1+

Source: Company; *Not issued by the company currently

Annexure II: List of entities considered for consolidated analysis

Rockman Industries Limited	Rockman Ownership	Consolidation Approach
Rockman Advanced Composites Private Limited	51.01%	Full Consolidation
Hero Electronix Private Limited	45.16%	Equity Method

Source: Rockman Audited Financial report FY2022

Note: ICRA has taken a consolidated view of the parent (Rockman), its subsidiaries and associates while assigning the ratings.

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