January 05, 2023

Bharat Seats 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 Fund-based – Term loan	5.69	20.00	[ICRA]A- (Stable); reaffirmed for existing limits and assigned for enhanced limits
Long-term– Fund-based working capital	35.20	35.20	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based working capital	40.00	30.00	[ICRA]A2+; reaffirmed
Unallocated	1.11	0.80	[ICRA]A- (stable)/[ICRA]A2+; reaffirmed
Total	**82.00**	**86.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Bharat Seats Limited's (BSL) established position as a seat supplier to Maruti Suzuki India Limited (MSIL), and its favourable ownership structure, with Suzuki Motor Company (SMC) and MSIL holding a combined equity stake of 29.6%. BSL is one of the two suppliers of car seat sets for MSIL and Suzuki Motor Gujarat Pvt. Ltd. (SMG) and continues to be the sole supplier of seat sets for several key models. The company enjoys technical collaborations with Toyo Seats Co. Ltd. for seats, with INOAC Corporation for roof moulding and windshield components, and with Hayashi Telempu, Thailand, for its carpets, which supplements BSL's in-house product development capabilities and has helped it adapt to the Original Equipment Manufacturer's (OEM's) changing technological requirements. The company is also the sole supplier of two-wheeler (2W) seats to Suzuki Motorcycle India Private Limited (SMIPL).

BSL recorded a healthy 49% YoY growth in revenues in FY2022 and 50% YoY growth in revenues in H1 FY2023 supported by recovery in the passenger vehicle (PV) industry, and consequent volume growth of MSIL models handled by BSL. Despite the healthy volume growth, the company's EBIDTA margins at 3.9% in FY2022 remained impacted by heightened commodity prices and inflationary pressures. The company's ability to improve profitability in the challenging macro-economic environment continues to remain a monitorable, even as an easing in input costs and improved operating leverage are likely to aid a gradual improvement in the margins over the near to medium term. Despite the modest margin profile, the overall financial profile of the company remains healthy supported by relatively low debt levels and robust coverage metrics. The credit metrics continue to remain comfortable with interest coverage and TD/OPBITDA of 13.9 times and 0.4 time, respectively, in H1 FY2023, aided by no external term debt on the company's books during the period. Moreover, its dependence on working capital limits has remained low on the back of healthy credit from its suppliers over the years.

The company plans to set up a new plant in SMG's vendor park with capex outlay of ~Rs. 50 crore over FY2023-FY2024; the new facility will lead to enhancement in the company's production capacity in line with the OEM's requirements. Even as the company's borrowings would increase in FY2023 to fund the capex for the facility, the credit metrics are expected to remain comfortable aided by improved accruals. The company's growth prospects over the medium term are expected to remain healthy, aided by growth trends in PV industry, its healthy share of business (SOB) with MSIL and SMG (in car seats and carpet sets) and new business gains for the upcoming models of OEM. The ratings continue to be constrained by the company's high dependence on MSIL, given that more than 85% of its revenues are linked to the OEM's performance. The same is mitigated to a certain extent by the company's healthy SOB with MSIL, along with leadership position of MSIL in the PV segment.

The Stable outlook on the long-term rating reflects ICRA's opinion that BSL will continue to benefit from its established relationship with MSIL, favourable ownership and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Well-established relationship with MSIL – BSL has an established relationship with MSIL, the market leader in the PV industry, and is one of the two suppliers of car seat sets for the OEM. Despite some loss of business in recent years, BSL continues to be the sole supplier for several key models of MSIL. Aided by healthy demand in the passenger vehicle industry, the company registered a YoY growth of 29% in FY2022 and 20% in H1 FY2023 (annualised) in seats volume sold. Moreover, the company manufactures carpet sets for some of the models of MSIL and has gained additional business for three new models in this division. ICRA expects BSL to regain some of its lost SOB over the near-to-medium term and continue to remain a critical supplier for MSIL.

Favourable ownership with MSIL and SMC owning stakes in BSL, beside benefits of technical collaboration – BSL has been promoted by the Relan family and its key OEMs, MSIL and SMC, which together have a combined stake of 29.6% in BSL. Moreover, it enjoys technical collaborations with Toyo Seats Co. Ltd. for seats and INOAC Corporation for roof moulding and windshield components. This has aided BSL in maintaining a healthy SOB with MSIL over the years.

Status as sole supplier of 2W seats to SMIPL providing diversification benefits – BSL remains the sole supplier of 2W seats for all the models of SMIPL. The company witnessed a volume growth of 33% from the sale of 2W seat assemblies to SMIPL in FY2022. The overall supplies to SMIPL, including the seat sets and frame assemblies, accounted for ~10% in FY2022. Although the revenue share from this division remains relatively low at present, as the share from this segment increases, it is likely to provide greater diversification benefits to BSL.

Credit challenges

High client concentration risk with more than 85% of revenues generated by MSIL – MSIL and SMG together accounted for more than 85% of BSL's revenue in FY2022. This exposes the company to high customer concentration risk with its revenue prospects primarily remaining linked to MSIL's volumes. However, the same is partially mitigated by the company's healthy SOB with MSIL and its favourable ownership pattern, wherein MSIL and SMC hold a combined stake of 29.6%. Additionally, the leadership position of MSIL in the PV segment helps in mitigating the risk to an extent.

Decline in SOB in recent years; expected to recover to an extent over the medium term – At present, BSL is one of the two major seat set suppliers to MSIL. Over the years, it has enjoyed close to 40% SOB with MSIL. However, over FY2019-FY2021, the company's competitor won the awards for supplying seat sets to most of the new models of MSIL. Along with lower sales of the models handled by BSL, this led to its SOB with MSIL declining to around 30%. Nevertheless, the company has been recently awarded the front car seats business for MSIL's two new models and the back seat business for a new model. Given the same, the SOB is expected to improve in the near to medium term.

ESG Considerations

Environmental considerations: Even as BSL is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, its automotive manufacturing customers remain highly exposed to the same; accordingly, BSL's prospects are linked to the ability of its customers (MSIL, SMG and SMIPL) to meet tightening emission requirements. The company has been taking steps to reduce its carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as implementation of various energy saving techniques on the shop floor. The company also manages effective handling of waste. The company's exposure to litigation/ penalties from issues related to waste and water management remains relatively low.

Social considerations: BSL, like most automotive-component suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption free operations for the entity. BSL's annual reports indicate that the entity has been taking initiatives to support its vendors in upgrading their operations, skills, quality, and technology. The company has also implemented monthly, zone-wise safety audit systems for the safety of its employees and to ensure zero accident cases. Another social risk that BSL faces pertains to product safety and quality, wherein instances of product recalls and high-warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, BSL's strong track record in catering to leading automotive OEM underscore its ability to mitigate these risks to an extent. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

BSL's liquidity profile is adequate, supported by estimated net cash accruals of Rs. 30-40 crore in FY2023 and working capital buffer of Rs. 30 crore as on October 31, 2022. While the company does not have any external term loan on its books as of October 2022, the repayment obligations will arise, when the company avails additional loan in H2 FY2023 to fund the construction of its new plant in Gujarat. There is no fixed repayment schedule for promoters' loan of Rs 32.6 crore outstanding as on September 30, 2022. Moreover, the company continues to enjoy healthy financial flexibility, as a part of the Rohit Relan Group.

Rating sensitivities

Positive factor – A sustained improvement in BSL's share of business with MSIL or diversification of clientele through new business awards could result in a positive rating action. ICRA would also favourably consider any improvement in profitability indicators aided by cost efficiency and backward integration measures, such that the company can generate RoCE above 18% on a sustained basis.

Negative factor – A decline in share of business with MSIL or weakness in demand in the PV industry, leading to reduced scale of operations and weak cash accruals for BSL, ultimately impacting its return and credit metrics could result in a negative rating action.

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 standalone financials of BSL.

About the company

Incorporated in 1986, Bharat Seats Limited is a joint venture between Indian promoters (Rohit Relan Group), Maruti Suzuki India Limited and Suzuki Motors Corporation, engaged in manufacturing cars seats for MSIL. From FY2006, BSL diversified its operations to manufacture moulded floor carpets for MSIL and 2W seats for Suzuki Motorcycle India Private Limited. Currently, the company's manufacturing facilities are at Gurgaon, Manesar and Borakalan in Haryana, and at Surendra Nagar in Gujarat.

BSL is promoted by Mr. Rohit Relan and family. Mr. Relan is a chartered accountant with a President Management Programme from Harvard Business School, USA. The Relan Group has gone through a family restructuring, as a result of which, BSL's shareholding now resides with Mr. Rohit Relan and family.

During FY2022, the company derived 85% of revenues from its car seat assembly division, 6% from motorcycle seat division and the rest from other divisions such as carpet sets, extrusion components for vehicle roofs, and frame components. The company's revenue is generated entirely from the domestic market.

Key financial indicators (audited)

BSL standalone	FY2021	FY2022	H1 FY2023 (Prov.)
Operating income	547.7	817.6	538.4
PAT	4.8	11.9	9.4
OPBDIT/OI	4.9%	3.9%	4.0%
PAT/OI	0.9%	1.5%	1.8%
Total outside liabilities/Tangible net worth (times)	1.5	1.7	-
Total debt/OPBDIT (times)	1.3	1.2	-
Interest coverage (times)	6.5	8.2	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; balance sheet figures not available for H1 FY2023

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 Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Jan 05, 2023	Nov 26, 2021	Nov 27, 2020	Aug 30, 2019	Aug 8, 2019
1	Fund Based-working capital	Long-term	35.2	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
2	Fund Based-Term Loans	Long-term	20.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
3	Non-Fund Based working capital	Short term	30.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long-term/short term	0.80	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Fund-based working capital	Simple
Long-term fund-based – Term Loan	Simple
Short -term – Non fund-based working capital	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

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	Cash Credit	NA	NA	NA	35.20	[ICRA]A-(Stable)
NA	Term Loan	Yet to be availed			20.00	[ICRA]A-(Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	30.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	0.80	[ICRA]A-(Stable)/[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 – Not applicable

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About ICRA Limited:

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