March 20, 2023

Ralson (India) Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	66.24	125.50	[ICRA]A+ (Stable); reaffirmed; assigned to enhanced amount
Fund/non fund-based Limits	3.09	3.09	[ICRA]A1; reaffirmed
Term loans	37.41	42.41	[ICRA]A+ (Stable); reaffirmed; assigned to enhanced amount
Non Fund-Based Facilities	24.00	34.00	[ICRA]A1; reaffirmed; assigned to enhanced amount
Long-term/ Short-term-Fund based limits	9.26	-	-
Short-term-Fund based limits	15.00	-	-
Total	**155.00**	**205.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings favourably factors in the strong market position of Ralson (India) Limited (Ralson) in the bicycle tyre and tube segments, aided by its established brand, widespread distribution network and its diversified business mix with strong presence across segments (including the replacement and original equipment manufacturer (OEM) markets). Ralson is a market leader in the domestic bicycle tyre market and enjoys a strong presence with leading bicycle OEMs in India. The ratings also consider the management's increased focus on scaling up its presence in the automobile tyre and premium bicycle tyre segments in the domestic and international markets. The company reported a healthy revenue growth of 29% in the automobile tyre segment and 26% in exports in FY2022. It is also aggressively targeting the US markets, particularly for two-wheeler tyres and truck and bus (T&B) radial tyres (via its subsidiary, Ralson Tyres Limited/ RTL). While RTL is likely to face high competition in the T&B tyre segment, extensive experience of its promoters in the tyre industry, and Ralson's distribution network are expected to help the company gain business in the initial years of operations. Moreover, T&B tyre exports to the US from India have remained healthy in the recent past, reflecting better acceptance of Indian tyres in the overseas markets, thus auguring well for the company, enabling it to achieve better scale of operations over the medium term.

ICRA notes that RTL's T&B radial tyre plant has commenced operations from February 2023. The total project cost for setting up RTL's plant was initially estimated at ~Rs. 595 crore, however, due to increase in commodity prices and other overheads, the actual capex incurred on the plant has been higher than budgeted at ~Rs. 800 crore. The debt- funded capex has resulted in moderation in the Ralson Group's credit metrics with Net Debt/ OPBITDA at 4.7 times in FY2022 from 0.8 times in FY2021, and gearing ratio at 0.8 times in FY2022 from 0.2 times in FY2021. The credit metrics are affected in FY2023 as a large part of the debt-funded capex was incurred in the current fiscal. RTL's ability to ramp-up its scale of operations in a timely manner and generate healthy cash flows would remain a key monitorable over the medium term.

The ratings remain constrained by the high revenue concentration in the bicycle tyre segment (75-80%) and intense competition in the industry. Hence, Ralson's financial performance remains largely aligned to the underlying demand trends in the bicycle industry. Further, the company's operating margins are exposed to fluctuations in raw material prices, resulting in volatility in profitability indicators. A rise in input prices impacted the company's profit margins in FY2022 and YTD FY2023 with OPM declining to 8.2% in FY2022 and 8.9% in 9M FY2023 from 12.4% in FY2021. Going forward, though the foray into the premium tyre segment augurs well for its margins, ICRA expects the margin trend to remain exposed to raw material price movements.

The Stable outlook on the long-term rating reflects ICRA's expectations that Ralson will continue to maintain its leadership position in the Indian bicycle tyre industry, aided by its well-established brand and strong business relationships with leading bicycle OEMs in India; the same is likely to continue to aid the company's earnings profile. Further, even as the company's credit metrics have been impacted by the substantial investment undertaken for the new plant, they are expected to gradually improve over the medium term, aided by incremental revenues from the T&B tyre business and consequent healthy cash flow generation.

Key rating drivers and their description

Credit strengths

Market leader in India's bicycle tyre segment – Ralson is the market leader in the Indian bicycle tyre industry with a market share of ~35-40%[1] among organised players, with a turnover of Rs. 828.4 crore in FY2022 from the bicycle tyre segment. The company's strong market position is supported by its well-established brand, well-entrenched distribution network and established relationships with majority leading bicycle OEMs in India. The bicycle tyre market is characterised by a few large players and several unorganised players. In the organised segment, Ralson competes with players such as Metro Tyres Limited, Poddar Tyres Limited, Hartex Rubber Private Limited and Govind Rubber Limited.

Well-diversified customer portfolio with revenues mainly derived from replacement market – The company has a diversified customer base, with its top-five customers accounting for 16-18% of the overall revenues. This is primarily because of its strong presence in the replacement market, which drove approximately 59% of its FY2022 revenues.

Increased focus on exports and foray into T&B tyre segment to drive growth – Ralson has been enhancing its focus on the automobile tyre and premium bicycle tyre segments in both the domestic and international markets. To support its growth plans, Ralson had invested in capacity expansion in the automobile tyres and premium bicycle tyres segments during FY2020-FY2021. It is also aggressively targeting the US markets, particularly for two-wheeler and T&B tyres (via its new subsidiary, RTL, which commenced operations in February 2023). While RTL is likely to face high competition in the T&B tyre segment, extensive experience of the promoters in the tyre industry, and Ralson's distribution network are expected to help the company gain business in the initial years of operations. Moreover, T&B tyre exports to the US from India have remained healthy in the recent past, reflecting better acceptance of Indian tyres in the overseas markets, thus auguring well for the company, enabling it to achieve better scale of operations over the medium term.

Restrictions on tyre import and Government's focus on Make in India scheme to aid business prospects for domestic manufacturers like Ralson – The imports of cycle tyres (although a small share of the total domestic demand) had been on an increasing trend before the import restrictions came into place, because of increasing demand for premium cycles whose tyres were mostly imported. Given Ralson's capability to manufacture premium cycle tyres, it has benefitted from the restrictions on imports enforced by the Government.

Credit challenges

High concentration in bicycle tyre segment with limited presence in auto tyres – Ralson, at present, derives 75-80% of its revenues from the bicycle tyre segment, while automobile tyre sales are mostly limited to the replacement market. Recognising the growth potential in the auto tyre segment, the company has been focusing on entering the OEM segment as well as increasing its sales in the replacement market over the past few years. It had recently acquired the marketing rights of the Dunlop brand, with a view to strengthen its market position in the auto tyre segment and to gain presence in the OEM business. However, it faces intense competition from large tyre manufactures, such as MRF Limited, Apollo Tyres Limited and CEAT Limited. Further, the company does not have technical collaborations with other companies, which could have potentially helped it in penetrating the OEM segment as well as in expanding its reach across overseas markets. Nevertheless, the

---

[1] *Source: CMIE based on revenue market share*

company's plans to enter the T&B radial tyre market via its subsidiary, RTL, will aid in diversification of its revenue stream as well as improve its scale of operations over the medium term.

Intense competition from several organised and unorganised players – Competition from the unorganised segment is high, both in the bicycle and auto tyre segments, especially in aftermarket supplies. The presence of unorganised players, in addition to several large, organised tyre manufacturers, limits the company's pricing power and flexibility.

Operating margins remain vulnerable to fluctuation in raw material prices – Ralson's margins have witnessed a significant volatility over the years owing to fluctuations in the prices of its key raw materials, such as natural and synthetic rubber and carbon black, which collectively account for 62-64% of its total raw material consumption. While the OPM had improved to 9.8% in FY2020 and 12.4% in FY2021, aided by lower raw material cost and improvement in realisation with higher share of premium cycle tyres, the rise in input prices impacted the margins in FY2022 (OPM of 8.2%) and 9M FY2023 (OPM of 8.9% as per provisional financials). Nevertheless, the moderation in the prices of natural rubber and crude oil from July 2022 is expected to help improve the margins in the near term.

Debt-funded capex has resulted in moderation in credit metrics – Ralson has historically maintained a comfortable financial risk profile, characterised by a conservative capital structure. However, the company has undertaken substantial capex over the past few years for setting up a new T&B tyre plant, housed under its subsidiary, RTL. The total project cost for setting up RTL's plant was initially estimated at ~Rs. 595 crore, however, due to increase in commodity prices and other overheads, the actual capex incurred on the plant has been higher than the budgeted cost at ~Rs. 800 crore. The project was funded by ~Rs. 390 crore of funds infusion from Ralson in the form of equity and unsecured loans, ~Rs. 21-23 crore equity infusion by promoters in their personal capacity or via other promoter entities, and ~Rs. 390 crore term loans from banks (which is secured by corporate guarantee from Ralson). The debt-funded capex has resulted in moderation in the company's credit metrics with Net Debt/ OPBITDA at 4.7 times in FY2022 from 0.8 times in FY2021, and gearing ratio at 0.8 times in FY2022 from 0.2 times in FY2021. The credit metrics are affected in FY2023 as a large part of the debt-funded capex was incurred in the current fiscal. RTL's ability to ramp-up its scale of operations in a timely manner and generate healthy cash flows would remain a key monitorable over the medium term.

Liquidity position: Adequate

Ralson's liquidity position is **adequate**, supported by expectation of healthy net cash accruals of Rs. 80-100 crore p.a. and buffer in working capital limits (average buffer of Rs. 67 crore against the drawing power/sanctioned limit of Rs. 215.5 crore during the six-month period ending in January 2023; in addition, RTL has sanctioned working capital limits of ~Rs. 137 crore). Against this, the Group has long-term debt repayments of ~Rs. 51 crore in FY2024. The company's project capex of ~Rs. 800 crore in RTL has been completed and going forward, it is expected to have only maintenance capex requirements (Rs. 30-40 crore p.a. at a consolidated level), which are expected to be primarily met from internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded, in case of a healthy diversification of revenues and/or improved market position, especially in the auto tyre segment. The ratings may also be upgraded in case of a significant improvement in revenue and profitability indicators with core RoCE above 15% and/or Total Debt/ OPBDITA below 1.5 times on a sustained basis, while maintaining comfortable credit metrics.

Negative factors – The ratings may be downgraded, in case of any significant deterioration in the company's profitability indicators and liquidity profile. The ratings may also be downgraded in case of a slower-than-expected ramp-up in the T&B tyre plant, leading to pressure on the credit metrics with DSCR below 2.0 times, on a sustained basis.

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	The ratings are based on the consolidated financial statements of the rated entity. As on March 31, 2022, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

Incorporated in 1974, Ralson (India) Limited was founded by Mr. Om Prakash Pahwa. At present, it is led by Mr. Sanjeev Pahwa (son of Mr. Om Prakash Pahwa), who serves as the Managing Director and Chairman of the board of directors. The company started its operations from Ludhiana, Punjab, by manufacturing bicycle tyres and tubes. Over the years, it has diversified into the automobile tyre segment, primarily for two-wheelers. Its products are sold under two brands, Ralson and Ralco. Ralson has three manufacturing units in Ludhiana, with a combined annual production capacity of 56.4 million bicycle tyres, 66.5 million bicycle tubes, 4.8 million automotive tyres and 5.4 million automotive tubes.

Ralson set up a 89.69% subsidiary, Ralson Tyres Limited (RTL), in October 2019, for entering the T&B tyre market. The manufacturing plant of RTL has been set up in Madhya Pradesh and has a capacity to manufacture 8,52,000 tyres per annum. The plant commenced operations from February 2023.

Key financial indicators (audited)

Ralson Consolidated	FY2021	FY2022
Operating income	924.8	1,109.7
PAT	50.6	37.3
OPBDIT/OI	12.4%	8.2%
PAT/OI	5.5%	3.4%
Total outside liabilities/Tangible net worth (times)	0.6	1.4
Total debt/OPBDIT (times)	1.1	5.0
Interest coverage (times)	17.0	6.8

Ralson Standalone	FY2021	FY2022	9M FY2023*
Operating income	924.8	1,109.7	795.4
PAT	50.4	37.1	26.0
OPBDIT/OI	12.4%	8.2%	8.90%
PAT/OI	5.5%	3.3%	3.30%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	-
Total debt/OPBDIT (times)	1.0	2.6	-
Interest coverage (times)	17.1	6.8	3.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*Source: Company, ICRA Research; All calculations are as per ICRA Research; Amount in Rs. crore; *Provisional financials*

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 Mar 03, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Mar 20, 2023	Jan 31, 2022	Dec 28, 2020	Nov 27, 2020	Aug 26, 2019
1	**Cash Credit**	Long term	125.50	NA	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**-**
2	**Fund/Non Fund-based Limits**	Short term	3.09	NA	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**-**
3	**Term Loans**	Long term	42.41	42.41	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**-**
4	**Non Fund-Based Facilities**	Short term	34.00	NA	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**-**
5	**Fund Based Limits**	Long term and Short Term	-	-	**-**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**-**
6	**Fund Based Limits**	Short term	-	-	**-**	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**-**
7	**Issuer Rating**	Long term	-	-	**-**	**-**	**[ICRA]A+ (Stable); Withdrawn**	**[ICRA]A+ (Stable); Placed on Notice of Withdrawal**	**[ICRA]A+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund Based Cash Credit	Simple
Short-term Fund/Non Fund-based Limits	Simple
Long-term Term Loans	Simple
Short- term Non Fund-Based Facilities	Very Simple
Long-term and Short Term- Fund Based Limits	Simple
Short-term Fund Based Limits	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-I**	FY2019	NA	FY2024	1.62	[ICRA]A+ (Stable)
NA	**Term Loan-II**	FY2019	NA	FY2024	1.11	[ICRA]A+ (Stable)
NA	**Term Loan-III**	FY2022	NA	FY2027	26.39	[ICRA]A+ (Stable)
NA	**Term Loan-IV**	FY2021	NA	FY2024	13.29	[ICRA]A+ (Stable)
NA	**Cash Credit**	NA	NA	NA	125.50	[ICRA]A+ (Stable)
NA	**Fund/Non Fund-based Limits**	NA	NA	NA	3.09	[ICRA]A1
NA	**Non Fund-Based Facilities**	NA	NA	NA	34.00	[ICRA]A1

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	Ralson Ownership	Consolidation Approach
Ralson (India) Limited	100.00% (rated entity)	Full Consolidation
Ralson Tyres Limited	89.69%	Full consolidation

Source: Annual report FY2022

Note: ICRA has considered consolidated financials of parent (Ralson) and its subsidiary while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Arushi
+91 124 4545 396
arushi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches