July 06, 2023

Remsons Industries 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 – Cash Credit	24.00	24.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based – Overdraft	8.00	8.00	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based – Term loans	8.01	8.01	[ICRA]BBB- (Stable); reaffirmed
Long-term – Fund-based – Vendor Financing	4.50	10.00	[ICRA]BBB- (Stable); reaffirmed/ assigned
Short-term – Fund-based – Invoice Discounting	15.00	15.00	[ICRA]A3; reaffirmed
Short-term – Non-fund Based	3.00	3.00	[ICRA]A3; reaffirmed
Short-term – Unallocated	4.31	8.81	[ICRA]A3; reaffirmed/ assigned
Total	**66.82**	**76.82**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings on the bank lines of Remsons Industries Limited (RIL) remains supported by the expectations that its credit profile would remain comfortable, going forward, on the back of steady demand outlook for its product segments with consequent growth in revenues and earnings, adequate liquidity and debt protection metrics. The ratings continue to factor in the extensive experience of the company's promoters in the auto ancillary industry and its established client base comprising leading domestic and international automobile OEMs. The company's consolidated revenue grew by 9% YoY in FY2023 and stood at Rs. 312.9 crore, driven by strong demand in the domestic market. Better scale coupled with moderation in input prices resulted in improvement in margins and debt coverage metrics.

The ratings, however, are constrained by the near-term demand pressures from the export markets, especially in the UK, which houses its foreign operations and contributed to ~20% of its consolidated sales in FY2023. The UK operations posted a sales decline of 17.1% in FY2023, amidst subdued demand conditions and high inflationary regime. This, coupled with susceptibility of margins to volatility in raw material prices given its limited bargaining power with its key customers, makes its earnings profile vulnerable. Hence, the ability of the company to pass on such raw material increases, in a timely manner, remains critical for protecting its margins. The ratings also consider the relatively lower net worth base of the company, which in turn leads to high Total Outside Liabilities/Tangible Net Worth (TOL/TNW). The rating also factors in the exposure of RIL`s operations to the inherent cyclicality in the automobile industry, intense competition from domestic and international players, and high client concentration risks.

The Stable outlook reflects ICRA's opinion that the company will continue to maintain in credit profile, given stable domestic demand, adequate liquidity levels and established track record with its clients.

Key rating drivers and their description

Credit strengths

Long and established track record of promoters in auto ancillary industry – Remsons was incorporated by Mr. V. Harlalka on May 11, 1971, as a manufacturer of auto ancillary components, mainly auto control cables and gear shift assemblies. The promoters have an extensive track record of over four decades in the auto ancillary business. The company acquired the UK entity, Magal Cables Limited (MCL), in H2 FY2021, which operates in a similar business, manufacturing components like cable assemblies and pedal box systems. The acquisition strengthens RIL's presence in the export market and aids revenue growth.

Established relationships with reputed clients – The client base of the company includes reputed automobile OEMs in the domestic and export markets such as Hero Moto Corp Limited, Tata Motors Limited, Ashok Leyland Limited, Force Motors Limited and Mahindra & Mahindra, among others. The company has enjoyed relationships of over 15–30 years with its clients. MCL caters to globally reputed players such as Ford Motors Ltd., BMW AG, Diamler AG and Renault Nissan. The established relationships with its customers and limited churning in its customer base have ensured significant repeat business.

Stable financial risk profile – RIL`s standalone revenue has seen a sustained growth over last few years, owing to robust uptick in the domestic market, which constitutes ~80% of revenues and posted a growth of 18.2% YoY to Rs. 264 crore in FY2023 from Rs. 223.3 crore in FY2022. The top line, at the consolidated level, however, grew at lower rate of 9% due to subdued demand conditions in overseas operations. Driven by better efficiencies of its new plant at Pune and price revisions sought from its client in FY2023, the margins expanded to 8.3% in FY2023 from 7.1% in FY2022. The debt protection metrics remained rangebound and is expected to improve, with no debt-funded capex on cards in the near to medium term. Revival of demand conditions for its UK operations, however, remains a key rating monitorable in the near term, given ~20% of top line and ~27% of debt on books, at consolidated level, was contributed by the UK operations in FY2023.

Credit challenges

Near-term demand pressures from export markets, especially for the UK operations – The company's UK subsidiary's (Remsons Automotive Ltd) operations have been facing demand as well as cost pressures, driven by high inflationary regime, leading to a tepid demand scenario. The UK operations posted a decline in FY2023 to the extent of 17.1% compared to FY2022, reflecting in the demand pressures. Though India operations are expected to support the revenue growth in the current fiscal, revival of demand conditions for its UK operations remains critical for overall improvement of its consolidated credit profile.

Profit margins remain susceptible to volatility in raw material prices; relatively limited net worth base – The key raw materials for the company are steel, plastic, PVC, zinc and other consumables. In addition, labour cost constitutes a significant part of the company's overall cost structure. Given its limited ability to pass on the increase in labour and manufacturing expenses to its customers due to its limited bargaining power and intense competitive landscape, the profitability margins have continued to be under stress over the last two fiscals. Moreover, the rise in key input materials lately, will also keep the margin under pressure in the near term. Hence, the ability of the company to seek price revisions in a timely manner from its key OEM customers remains critical.

The net worth base of the entity also remains at a moderate level, given relatively average accretion to profits over FY2018-FY2022, due to volatile demand conditions and subdued performance of its UK subsidiary. The TOL/TNW, at the consolidated level, remains high at 3.50 times in FY2023, though has corrected to an extent from the peaks of FY2021.

Stiff competition from organised players in OEM segment and large unorganised segment in the replacement market – The company faces stiff competition from other auto component manufacturers in the domestic as well as export markets in case of OEM sales. Further, the replacement market remains largely unorganised in India at present, thus limiting the company's bargaining power to some extent.

Considerable client concentration – The company's dependence on its top customers has seen a steady increase to ~57% in H1 FY2023 from ~50% of the overall standalone revenues in FY2018. The revenue share from its top-five clients stood at ~86% in H1 FY2023. The company's clientele of reputed OEMs in both the domestic and export markets and its established relationships with them for over a decade, ensuring repeat business, provide comfort.

Environmental and Social Risks

Environmental considerations: Even as RIL is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, with its products being used by different categories of OEMs, its automotive manufacturing customers remain highly exposed to the same. Accordingly, the company's prospects are linked to the ability of its customers to meet tightening emission requirements. The company undertakes organisation-wide measures towards making its manufacturing processes and products sustainable and has accordingly been investing in safer, lighter and greener technologies. The company expanded its solar rooftop capacity by 20 KWP at its Daman plant in FY2022. This total installed capacity generated 21,600 units in a year. Apart from this, the company has undertaken activities with respect to safeguarding the environmental and ecological balance as a part of its CSR activities.

Social considerations: RIL, 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. The entity has been taking initiatives to impart training to its employees towards improvement of their capacity and capabilities. Another social risk that RIL 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, RIL's strong track record in catering to leading automotive manufacturers underscore its ability to mitigate these risks to an extent.

Liquidity position: Adequate

The liquidity position stood adequate, supported by the expected adequate cash flow generation against the annual debt repayment obligations in FY2024-FY2026. The company also had adequate liquidity cushion in terms of undrawn working capital limits, of Rs. 5.4 crore as on May 31, 2023. Comfort is also drawn from promoter loans, which as of March 31, 2023, stood at Rs. 11.5 crore, and the past track record to support through such means in case of any cash flow mismatches.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if steady and sustained improvement in scale of operations, along with improvement in profitability and working capital cycle, strengthens the overall financial profile and liquidity position.

Negative factors – Pressure on RIL's ratings could arise, if there is any substantial decline in scale of operations or profitability, leading to deterioration in key credit metrics marked by interest coverage ratio dropping below 2.8 times, on a sustained basis. Further, any large debt-funded capex or stretch in receivables deteriorating the liquidity profile, would also pose a pressure on RIL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers Consolidation and rating approach
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated profile of Remsons Industries Limited and its subsidiaries, whose details are listed in Annexure-2.

About the company

Remsons Industries Limited was incorporated in 1971 by the Late V. Harlalka as Remsons Cables Industries Private Limited (RCPL). In May 1984, RCPL took over the auto component trading business of Remsons India, a partnership concern, which was initially a proprietorship concern of Mr. Harlalka. Subsequently, RCPL was converted into a public limited company in October 1986 and renamed as Remsons Industries Limited in November 1986. Further, Daman Auto Industries Ltd., Rems Auto Engineers Ltd., and Remsons Auto Industries Pvt. Ltd. were amalgamated with the company with effect from April 2005.

Remsons manufactures auto components such as auto control cables, flexible shafts, gear shift systems, push-pull cables and parking brake mechanisms. The automobile industry drives ~97% of the company's sales and non-automotive sectors account for the rest. The company also exports auto control cables to Europe and the US, with Europe accounting for the bulk of the exports. Remsons also supplies various auto control cables in the replacement market. The company has six manufacturing plants across Gurgaon (Haryana), Daman (three locations in Daman and Diu), Pardi (Gujarat) and the UK. The design and validation facilities are in Gurugram, Pune & Mumbai. All facilities are ISO/TS 16949: 2009 and ISO 9001: 2008 certified. The Gurugram unit is additionally certified as per ISO 14001: 2004 standards. In September 2020, the company acquired a UK-based company, Magal Cables Limited, over whom it assumed control from October 15, 2020. The UK company is ISO/TS16949:2009, Ford Q1, JLRQ and Renault Ases certified. Remsons has also been awarded the Great Place To Work certification in 2022-23 and has also won an HR award by ACMA, on an all India basis.

Key financial indicators (audited)

Standalone	FY2021	FY2022	FY2023
Operating income	195.5	223.3	264
PAT	6.7	3.6	7.7
OPBDIT/OI	5.1%	6.3%	7.7%
PAT/OI	3.4%	1.6%	2.9%
Total outside liabilities/Tangible net worth (times)	3.4	3.2	2.7
Total debt/OPBDIT (times)	4.9	4.2	2.9
Interest coverage (times)	3.2	2.7	3.9

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

Consolidated	FY2021	FY2022	FY2023
Operating income	226.8	286.5	312.8
PAT	4.5	5.4	8.4
OPBDIT/OI	4.9%	7.1%	8.3%
PAT/OI	2%	1.9%	2.7%
Total outside liabilities/Tangible net worth (times)	4.6	4.1	3.5
Total debt/OPBDIT (times)	5.8	3.5	3
Interest coverage (times)	3.1	3.2	4.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		
				July 6, 2023	Jan 02, 2023	Jun 22, 2022	Mar 31, 2022	Feb 18, 2021 Feb 04, 2021	Sep 17, 2020	Apr 07, 2020
Cash Credit	Long term	24.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA] BBB- (Stable)
Overdraft	Long term	8.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	-	-	-	-
Term loans	Long term	8.01	4.65	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA] BBB- (Stable)
Vendor Financing	Long term	10.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB - (Stable)	[ICRA]BBB- (Stable)	-	-	-
Invoice discounting	Short term	15.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	-	-	-
Non-fund based	Short term	3.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3 &	[ICRA] A3
Unallocated	Short term	8.81	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Cash Credit	Simple
Long term - Fund based- Overdraft	Simple
Long term - Fund based – Term loans	Simple
Long term - Fund based- Vendor Financing	Simple
Short term - Fund based- invoice discounting	Simple
Short term - Non-fund based	Very Simple
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	24.00	[ICRA]BBB- (Stable)
NA	**Overdraft**	NA	NA	NA	8.00	[ICRA]BBB- (Stable)
NA	**Term loans**	Mar-2016	NA	Mar-2026	8.01	[ICRA]BBB- (Stable)
NA	**Vendor Financing**	NA	NA	NA	10.00	[ICRA]BBB- (Stable)
NA	**Invoice discounting**	NA	NA	NA	15.00	[ICRA]A3
NA	**Non-fund based**	NA	NA	NA	3.00	[ICRA]A3
NA	**Unallocated**	NA	NA	NA	8.81	[ICRA]A3

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
Remsons Holdings Limited (RHL)	100%	Full Consolidation
Remsons Properties Ltd (Step Down Subsidiary of RIL); (erstwhile Woolford Properties Ltd.)	100%	Full Consolidation
Remsons Automotive Ltd (Step Down Subsidiary of RIL); (erstwhile Magal Automotive Ltd.)	100%	Full Consolidation

Source: Company data;

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