

November 29, 2023

Sundaram Industries Private Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loans	76.85	62.22	[ICRA]A (Positive); reaffirmed; Outlook revised from Stable to Positive
Long-term – Fund-based facilities	73.37	120.00	[ICRA]A (Positive); reaffirmed; Outlook revised from Stable to Positive; assigned for enhanced portion
Short-term – Non-fund based facilities	45.00	64.00	[ICRA]A2+; reaffirmed; assigned for enhanced portion
Total	195.22	246.22	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation and revision in outlook on the long-term rating of Sundaram Industries Private Limited (SIPL) from Stable to Positive reflects ICRA's expectation of strengthening of its business profile and improvement in its financial profile over the near to medium term. SIPL's standalone operations are characterised by its established presence as a tier-2 component supplier in the automotive industry, leading player in the organised tyre retreading segment and presence in overseas markets through its solid tyre segment. SIPL's business profile is also strengthened by its subsidiaries, which were floated in recent years and most of which operate in different businesses. Its acquisition of Shore Auto Rubber Exports Private Limited (Shore Auto), a Pune-based manufacturer of customised rubber and silicone parts, strengthens its business profile. While the subsidiaries' share of consolidated revenues is currently low, its contribution to earnings is expected to be significant, going forward. The ratings continue to derive comfort from the vast experience of the promoter family in the automotive industry and SIPL's strong parentage as part of the TS Rajam Group and with TVS Mobility Private Limited (TVS Mobility) holding 100% stake in the entity. ICRA notes the Rs. 21.5 crore fund infusion in SIPL by the parent in the current fiscal.

These strengths are, however, offset by the vulnerability of SIPL's earnings to the cyclicity in the automotive business, fluctuations in prices of raw materials (namely rubber and carbon black) and foreign exchange (forex) rates. The ratings are also tempered by the relatively low operating margins in the standalone business and rising debt levels (which were primarily taken for acquisition related purposes), keeping the debt coverage metrics moderate. SIPL's ability to improve the debt protection metrics and strengthen the liquidity position will be critical monitorables.

Key rating drivers and their description

Credit strengths

Established track record of operations – SIPL has a long and established presence in the Indian automotive industry. It operates through three divisions, namely rubber, tyre solutions, and solid tyres. In the standalone business, it manufactures moulded rubber products that find application in auto and industrial product segments; provides retreading for commercial vehicle, tractor, off-road vehicle and passenger vehicle tyres; and manufactures industrial solid tyres and defence kits. The company derives almost equal share of revenues from its three divisions in the standalone operations. It also has three domestic and two overseas subsidiaries who are in the businesses of manufacturing solid tyres, battery chargers, and automotive reinforced silicone hoses, etc.

Improving business profile, earnings profile and comfortable capital structure – SIPL’s acquisition of Shore Auto in FY2023 has expanded its product profile and strengthened the business profile. Shore Auto commands higher operating margins and is expected to have stable revenue and earnings growth on the back of its established relationships with customers and favourable industry outlook. SIPL’s financial profile is characterised by sustained growth in revenues and comfortable capital structure (consolidated gearing of ~1x in FY2023). On the margin front, against a 4.3% standalone operating margin (FY2023), its consolidated margins are higher at ~8% supported by the margin-accretive business profile of its subsidiaries. SIPL’s consolidated margins are likely to expand, going forward, with the rising revenue share of its subsidiaries.

Strong parentage – In February 2022, the TVS Group underwent a restructuring exercise wherein the ownership and management of various entities were aligned with specific family groups. Following the restructuring, SIPL became part of the TS Rajam Group; hence, its profile is supported by a strong parentage with TVS Mobility holding 100% stake in the entity. ICRA notes the Rs. 21.5 crore fund infusion in SIPL by the parent in the current fiscal.

Credit challenges

Exposure to cyclicity in automotive industry – Given its large dependence on the automotive segment, SIPL’s revenues and earnings are susceptible to the cyclicity in automotive demand from both domestic and export markets. Any major slowdown in the auto industry has an impact on its business, although a large part of its business is partly insulated by its presence in the replacement segment. Slowdown in global markets has also affected the company’s revenues in recent quarters, especially in the solid tyre segment.

Operating margins susceptible to fluctuations in raw material prices and forex movements – SIPL’s profit margins from standalone operations is low due to relatively low value addition of products and limited pricing flexibility, given the intense competition and susceptibility to volatility in prices of synthetic and natural rubber, as well as forex movement. While the indexing of input price and partial hedging mitigates the risk to an extent, any sharp movement in raw material prices and forex rates shall continue to influence its margins. While the improving business profile is a positive, meaningful improvement in standalone margins will also be imperative to improve the consolidated margins and debt coverage metrics, going forward.

Increasing debt levels – In FY2023, SIPL paid a consideration of Rs. 71.3 crore for acquisition of 60% stake in Shore Auto with the balance consideration to be paid on the basis of FY2025 earnings. The acquisition was funded primarily by debt, which along with the increase in working capital debt for the increased scale of operations currently keeps debt levels at elevated. SIPL’s debt metrics are moderate with Interest cover of 4x and total debt to OPBDITA of 3.9x as of FY2023. ICRA expects the debt indicators to improve with likely expansion in its consolidated margins, going forward.

Liquidity position: Adequate

SIPL’s liquidity is adequate with estimated retained flows of Rs. 30-35 crore. It has repayment obligations of ~Rs. 14 crore on its term loans and capex plans of ~Rs. 35.0 crore in FY2024. Against this, the company has sanctioned undrawn term loans of Rs. 30 crore, cash and cash equivalents of Rs. 67.7 crore, as on March 31, 2023, and buffer against working capital limits of ~Rs. 27 crore, as of September 2023.

Rating Sensitivities

Positive factors – The rating could be upgraded if there is a significant improvement in SIPL’s scale of operations along with sustained improvement in profit margins, debt coverage metrics and liquidity profile. Material improvement in the credit profile of parent entity, is also a positive factor.

Negative factors – The rating could be revised to Stable or downgraded if SIPL’s revenues and margins deteriorate sharply on a sustained basis, thus stretching its cash flows. Any major debt-funded capital expenditure (capex) or acquisition, leading to weakening of its credit metrics on a sustained basis, or any significant weakening of the parent’s credit profile shall also be a trigger for 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	Parent Company: TVS Mobility Private Limited. The ratings assigned to SIPL factors in the likelihood of support from its parent.
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

Sundaram Industries Private Limited was incorporated at Pudukkottai, Tamil Nadu, in 1943. The company held stakes in multiple entities in the TVS Group. After the restructuring of the TVS Group in FY2022, however, the shareholding of SIPL was moved to TVS Mobility, which in turn is wholly held by members of the TS Rajam family group. Currently, the entity is involved in manufacturing rubber products, tyre retreading services, as well as sale of industrial tyres. TVS Mobility is part of the T S Rajam Group, a faction of the larger TVS Group, an established name in the domestic auto ancillary industry.

Key financial indicators (audited)

Standalone	Standalone		Consolidated
	FY2022	FY2023	FY2023
Operating income (Rs. crore)	657.4	810.5	897.7
PAT (Rs. crore)	13.2	3.9	17.9
OPBDIT/OI (%)	3.9%	4.3%	7.9%
PAT/OI	2.0%	0.5%	2.0%
Total outside liabilities/Tangible net worth (times)	1.8	2.7	1.8
Total debt/OPBDIT (times)	4.6	6.3	3.9
Interest coverage (times)	4.1	2.4	4.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Standalone numbers for FY2022 considers pre and post restructuring data

Consolidated numbers for FY2022 is not meaningful as the restructuring was done in February 2022.

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 29, 2023	Aug 30, 2022		
1	Term Loan	Long-term	62.22	27.16	[ICRA]A(Positive)	[ICRA]A(Stable)	-	-
2	Fund-Based Limits	Long-term	120.00	74.66	[ICRA]A(Positive)	[ICRA]A(Stable)	-	-
3	Non-Fund Based Limits	Short-term	64.00	34.40	[ICRA]A2+	[ICRA]A2+	-	-

*Following the composite scheme of amalgamation and arrangement towards group restructuring approved by the NCLT dated December 6, 2021, and the demerger of operations on February 4, 2022, the ratings on erstwhile Sundaram Industries Private Limited was withdrawn by ICRA on April 04, 2022.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund-Based Limits	Simple
Non-Fund Based Limits	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: [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	FY2021	NA	FY2030	62.22	[ICRA]A(Positive)
NA	Long-Term Fund Based	-	-	-	120.00	[ICRA]A(Positive)
NA	Short-term Non-Fund Based	-	-	-	64.00	[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

Company Name	Ownership	Consolidation Approach
Sundaram Industries Private Limited	100.00%	Full Consolidation
Sundaram Lanka Tyres Limited	100.00%	Full Consolidation
Sun Industrial Tyres Private Limited	100.00%	Full Consolidation
Sirius Controls Private Limited	100.00%	Full Consolidation
Shore Auto Rubber Exports Private Limited	100.00%	Full Consolidation

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