January 31, 2024

Subros Limited: Long-term rating upgraded; short-term rating reaffirmed; outlook revised to Stable; rating withdrawn for commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	13.40	5.63	[ICRA]AA upgraded from [ICRA]AA-; Outlook revised to Stable from Positive
Non-Fund based facilities	95.00	50.00	[ICRA]A1+; reaffirmed
Fund based limits	80.00	80.00	[ICRA]AA upgraded from [ICRA]AA-/ [ICRA]A1+ reaffirmed; Outlook revised to Stable from Positive
Fund/Non Fund-based Limits	100.00	100.00	[ICRA]AA upgraded from [ICRA]AA-/ [ICRA]A1+ reaffirmed; Outlook revised to Stable from Positive
Unallocated limits	15.10	67.87	[ICRA]AA upgraded from [ICRA]AA-/ [ICRA]A1+ reaffirmed; Outlook revised to Stable from Positive
Total bank facilities	**303.50**	**303.50**	
Commercial paper	**40.00**	**00.00**	[ICRA]A1+; reaffirmed and withdrawn

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating for Subros Limited (Subros) factors in the expectation of continuation of strong operating performance of the company and a gradual uptick in its operating profit margin, which would aid in further strengthening the company's credit profile. Subros reported a healthy YoY revenue growth of 25% (revenues of ~Rs. 2,806.3 crore) in FY2023 and 7% (~Rs. 1,506.6 crore) in H1 FY2024, aided by healthy underlying demand in the passenger vehicle (PV) industry. Its medium-term growth prospects remain healthy, given its strong market position in the PV industry and continued demand in the industry. Further, the recent notification from the Government of India mandating air-conditioned (AC) fitted cabins in N2 and N3 trucks (both segments combined cover trucks having gross vehicle weight exceeding 3.5 tonnes), manufactured after October 2025, is expected to generate incremental revenue prospects for the company. While the company has significantly muted its sales in the home AC segment (sales of Rs. 3.5 crore in H1 FY2024 vis-à-vis ~Rs. 84.4 crore in FY2023) due to low segment margins amid inflationary pressure in the fixed price nature of contracts, an increase in contribution from the other business segments such as commercial vehicle (CVs) and Indian Railways is expected to support its earnings growth prospects.

The ratings for Subros continue to factor in its strong market position in the thermal products segment of the PV industry, benefitting from its integrated manufacturing operations and strong product development capabilities, which is supported by technical support from Denso Corporation, Japan. The company is expected to continue its growth momentum on account of new product development for various models of PVs, buses, trucks and the railways segment. The ratings also continue to favourably factor in Subros's healthy financial risk profile, characterised by a net negative debt position, strong debt coverage indicators (total debt/OPBDITA of 0.5 times, interest coverage of 24.8 times and DSCR of 8.8 times in FY2023) and a strong liquidity profile (cash and liquid investments of ~Rs. 124.5 crore as on December 31, 2023).

The company's business remains characterised by high customer and segment concentration risk with sales to Maruti Suzuki India Limited (MSIL, including indirect sales) accounting for ~84% of revenues in FY2023. The same is mitigated to an extent by its strong share of business (SOB) with MSIL and the OEM's market leadership in the PV segment. Moreover, business gains from the new segments are expected to lead to some moderation in the segment and client concentration risks going forward.

The company's operating profitability, which remained impacted over FY2020-FY2023 (6% in FY2023) by inflationary pressures, improved to 7.8% in H1 FY2024, aided by the easing of commodity prices and sustained reduction in import content (stood at ~16% of revenues as of September 2023 end). While profitability continues to remain susceptible to commodity and logistics costs owing to any adverse geopolitical situation, the operating margins and return indicators are expected to improve over the medium term, aided by operational efficiencies, cost efficiency measures as well as increased localisation. The company has moderate capex requirements at ~Rs. 100-120 crore per annum, which are to be largely funded through internal accruals. An expectation of improved cash accruals is likely to help the company maintain its strong financial risk profile and liquidity position.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's revenue and earnings growth will remain at healthy levels over the medium term, supported by continued business awards from MSIL and diversification into new segments. ICRA expects the company to continue maintaining a conservative financial risk profile, which is reflected by its limited incremental dependence on external borrowings.

The rating assigned to the commercial paper programme of Subros has been withdrawn at the request of the company and in accordance with ICRA's policy on withdrawal of the credit rating, as there are no obligations outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

Strong market share of thermal products in PV industry; ramp up in supplies for other businesses to aid sector diversification over medium term – Subros is a leading automotive thermal system manufacturer in the domestic market. Despite intense competition, it has successfully maintained a strong market position (an estimated market share of ~42% in the addressable product range in PV industry), benefitting from its integrated manufacturing and strong product development capabilities. The company has a strong SOB of ~75% with MSIL, which has improved over the recent past with an increase in the proportion of sales originating from the SUV segment, where Subros holds a higher share. Over the last few years, it has also expanded its product range to cater to other segments such as CV OEMs and Indian railways. The company has recently secured a tender of ~Rs. 25 crore for supplying roof mounted ACs for Indian railways coaches. Further, the mandated usage of AC cabins in N2/N3 category vehicles would provide the company with incremental revenue opportunities from FY2026. Accordingly, its dependence on the PV segment is expected to reduce over the medium term as supplies for new business segments scale up.

Technical collaboration with Denso Corporation strengthens product development capabilities and competitive positioning - Subros has a technical collaboration with Denso Corporation, a leading automotive manufacturer in the global market. The company's strong product development capabilities, coupled with its considerable scale of operations and low-cost structure, have enabled it to sustain a strong market position over the years. Its strong parentage (Suzuki Motor Corporation and Denso Corporation hold ~12% and ~20% equity stakes, respectively) has also helped it maintain strong business relationships with its primary customer, MSIL, while aiding in establishing relationships with new customers.

Healthy financial risk profile characterised by conservative capital structure and strong debt coverage indicators – Subros received an equity infusion of Rs. 209.88 crore from the issue of equity shares on a preferential basis to Denso Corporation, Japan, in December 2018. The company utilised the equity proceeds for part repayment of its debt and creditors, and the financial risk profile of the entity improved significantly following the infusion. It continues to maintain healthy cash and liquid investments (~Rs. 124.5 crore as on December 31, 2023) and is characterised by a net negative debt position and strong debt coverage indicators (total debt/OPBDITA of 0.5 times, interest coverage of 24.8 times and DSCR of 8.8 times in FY2023). The total outside liabilities/ total net worth ratio also remains at moderate levels of 0.8 times despite the presence of significant creditors on the company's books. With capex requirements are expected to remain at moderate levels going forward, an expectation of strong cash accruals is likely to help the company maintain its strong financial risk profile and liquidity position.

Credit challenges

High client and segment concentration risks with MSIL, driving more than 80% of sales – The company remains exposed to customer concentration risk with sales to MSIL accounting for ~84% (including indirect sales) of its revenues in FY2023. Although it results in high client concentration risk, the same is mitigated to a large extent by the OEM's market leadership in the PV segment and Subros' strong SOB across various models of the OEM. Even as the PV segment is likely to remain the mainstay of the company's business, the dependence is expected to reduce over the medium term as supplies for other business segments materially scale up.

Moderate profitability and return indicators – The operating profitability moderated over FY2020-FY2023 (from earlier levels of 10-11%) led by multiple factors such as a change in product mix (with an increase in contribution from the home AC segment, which entailed relatively lower margins), high commodity prices, increase in diesel prices, logistics and packaging costs. The company's operating margin, however, improved in Q2 FY2024 (8.6%) and is expected to gradually improve over the medium term, benefitting from economies of scale, measures to rationalise costs as well as increased localisation (operating margins to range between 8-10%). Following the moderation in RoCE in FY2021-FY2023 to the levels of 6.5-8.5%, an expectation of a gradual improvement in operating margin going forward is likely to help the company improve its return indicators (RoCE expected to improve to 14-16% over the medium term).

Environmental and Social Risks

Environmental considerations: Even as Subros is not directly exposed to climate-transition risks from a likelihood of tightening emission control requirements, as its products are used across several fuel powertrains, its automotive manufacturing customers remain highly exposed to the same. Accordingly, Subros' prospects are linked to the ability of its customers to meet tightening emission requirements. The company may need to invest materially to develop products for electric vehicles, even as a transition towards the same in the segments catered is likely to be gradual. The company's exposure to litigation/penalties from issues related to waste and water management remains relatively low.

Social considerations: Subros, like most automotive-component suppliers, has a healthy dependence on human capital, and, thus, retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations for the entity. Another social risk that Subros faces pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to financial implications but could also harm the reputation and create a more long-lasting adverse impact. In this regard, Subros' strong track record in catering to leading automotive manufacturers underscores its ability to mitigate these risks to an extent. The company's strong technological capabilities, aided by support from Denso Corporation, are expected to align its products with any changes in customer preferences effectively.

Liquidity position: Strong

The liquidity position of the entity is strong, supported by sizeable cash and liquid investments (~Rs. 124.5 crore of cash and liquid investments as on December 31, 2023), low utilisation of working capital facilities (average utilisation of 15% of the sanctioned limit for last 12 months ended December 2023) and expectation of strong cash accruals (more than Rs. 180 crore per annum). The entity continues to have more than sufficient liquidity to meet its marginal debt repayments (~Rs. 0.9 crore in Q4 FY2024 and ~Rs. 3.8 crore in FY2025) and moderate capex plans (~Rs. 100-120 crore p.a.).

Rating sensitivities

Positive factors – ICRA could upgrade Subros' rating in case of a sustained improvement in its operational profile through material diversification of its automotive segment mix while maintaining healthy liquidity and credit metrics.

Negative factors – ICRA could downgrade Subros' rating in case of a significant deterioration in its operational profile led by a decline in SOB with key OEMs, especially MSIL. The ratings could also be downgraded in case of a deterioration in its profitability indicators or a higher-than-expected capital expenditure/ acquisition outlay, which may adversely impact its credit profile. Specific credit metrics that may lead to a downgrade include Debt/OPBDITA greater than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Subros Limited. As on March 31, 2023, the company had a JV, which is enlisted in Annexure-2.

About the company

Incorporated in 1985, Subros Limited is a leading thermal system manufacturer of compressors, condensers, hoses and tubes. The company is promoted by the Suri family, whose business interests are spread across diverse industries, such as education, hospitality and telecom access products. While the company was initially focused on providing cooling solutions for the PV segment, over the years it has gradually expanded its product portfolio to include thermal systems for homes, bus cabins, truck cabins, railway coaches and driver cabins.

The company's manufacturing plants are located in Noida (Uttar Pradesh), Manesar (Haryana), Pune (Maharashtra), Chennai and Karsanpura (Gujarat). It also has a manufacturing and assembly unit for residential and commercial cooling products at Nalagarh (Himachal Pradesh). Subros has a technological agreement with Denso Corporation, Japan, a leading automotive manufacturer in the global market. Denso Corporation currently owns a 20% ownership interest in Subros. Suzuki Motor Corporation, Japan, also holds a ~11.96% share in the listed entity, with ~36.79% held by the Suri family.

Key financial indicators (audited)

Subros Consolidated	FY2022	FY2023	H1-FY2024*
Operating income	2,238.6	2,806.3	1,506.6
PAT	32.2	47.8	40.1
OPBDIT/OI	6.7%	6.0%	7.8%
PAT/OI	1.4%	1.7%	2.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	-
Total debt[1]/OPBDIT (times)	0.5	0.5	0.3
Interest coverage (times)	13.8	24.8	28.5

*Source: Company, ICRA Research; *Limited results; All ratios as per ICRA's calculations; Amount in Rs. crore*

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

[1] Total debt includes bank borrowings and outstanding supplier's credit amount

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
					Jan 31, 2024	Jan 31, 2023	Jan 24, 2022	Feb 26, 2021	May 13, 2020	Apr 24, 2020
1	**Term loans**	Long term	5.63	5.63	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	**Non Fund-Based Facilities**	Short term	50.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	**Fund Based Limits**	Long term/short term	80.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
4	**Fund/Non Fund-based Limits**	Long term/short term	100.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	**Unallocated Limits**	Long term/short term	67.87	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-
6	**Commercial Paper**	Short term	40.00	NA	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	**NCD Programme**	Long term	-	-	-	-	-	-	[ICRA]AA- (Stable); withdrawn	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Non-Fund based facilities	Very simple
Fund based limits	Simple
Fund/Non-Fund based limits	Simple
Unallocated limits	Not applicable
Commercial paper	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**	June 2020	NA	June 2025	5.63	[ICRA]AA (Stable)
NA	**Non Fund-Based Facilities**	NA	NA	NA	50.00	[ICRA]A1+
NA	**Fund Based Limits**	NA	NA	NA	80.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	**Fund/Non Fund-based Limits**	NA	NA	NA	100.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	67.87	[ICRA]AA (Stable)/ [ICRA]A1+
NA	**Commercial Paper**	Yet to be placed			40.00	[ICRA]A1+; Withdrawn

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	Subros Ownership	Consolidation Approach
Subros Limited	Rated entity	Full Consolidation
Denso Subros Thermal Engineering Centre India Limited	26.00%%	Equity Method

Source: Subros annual report FY2023

Note: ICRA has considered consolidated financials of Subros while assigning the ratings.

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