March 31, 2024

Sundaram Brake Linings 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	75.00	85.00	[ICRA]BBB+ (Stable); reaffirmed / assigned for enhanced amount
Long-term fund based – Term loan	10.00	15.00	[ICRA]BBB+ (Stable); reaffirmed / assigned for enhanced amount
Short-term non-fund based	4.07	4.07	[ICRA]A2; reaffirmed
Short-term fund based – sublimit	(35.00)	(65.00)	[ICRA]A2; reaffirmed / assigned for enhanced amount
Short-term non-fund based – sublimit	(1.50)	(1.50)	[ICRA]A2; reaffirmed
Total	**89.07**	**104.07**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings outstanding on the bank lines of Sundaram Brake Linings Limited (SBLL) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by the company's established market position in the friction material industry, its healthy domestic-export mix, comfortable capital structure and financial flexibility, stemming from being a part of the T S Krishna Group (part of the larger TVS Group of Companies). The company has reputed tier-I automobile suppliers as its customers in the domestic original equipment manufacturers (OEM) segment and distributes through established pan-India players in the aftermarket segment. Apart from this, it derives a material portion of its revenues from exports (35.8% of revenues in 9M FY2024), which provides diversification. Further, SBLL has a conservative capital structure (gearing of 0.4x as on December 31, 2023), supported by moderate working capital borrowings and low long-term debt. Its liquidity position remains adequate with a comfortable buffer of Rs. 45.7 crore in working capital lines as of December 31, 2023. The ratings also favourably consider the strong financial flexibility it enjoys with lenders/investors by being a part of the T S Krishna Group (part of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry).

The ratings, are however, constrained by the company's moderate scale of operations and low accruals, despite improvement in the last one to two years. The company reported an operating income of Rs. 264.3 crore in 9M FY2024 and Rs. 357.4 crore in FY2023, and its cash accruals stood at Rs. 14.1 crore during 9M FY2024, despite improvement from FY2023 levels. ICRA notes that SBLL has introduced new product lines, the scale-up of which is expected in FY2025. Its various revenue and margin improvement measures are also likely to improve accruals going forward. However, the extent of improvement remains to be seen, given the weak outlook for auto component exports in FY2025 and muted domestic CV demand expected in FY2025. The company also faces intense competition from the industry incumbents and unorganised players in the aftermarket segment. Also, while the coverage metrics improved in 9M FY2024 (Total debt/OPBDITA of 1.4 as on December 31, 2023) aided by improvement in accruals, sustenance of the same remains to be seen, amid debt-funded capex plans in FY2025 and FY2026.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its established business position, comfortable capital structure and adequate liquidity.

Key rating drivers and their description

Credit strengths

Established player in the Indian friction material industry; healthy domestic-export mix – SBLL is a reputed player in the Indian automobile friction material industry. Its direct and indirect clients include established tier-1 auto component suppliers and auto OEMs catering to the commercial vehicle, two-wheeler, and passenger vehicle segments. In the domestic aftermarket space, SBLL has a pan-India presence with a network of distributors and multiple direct stockists. Apart from this, the company derives a material portion of its revenues from exports (35.8% of revenues in 9M FY2024), which provides diversification.

Conservative capital structure – The company had a comfortable capital structure as illustrated by a gearing of 0.4x as on December 31, 2023 (0.6x in FY2023). SBLL did not undertake any major capex in the last several years and its debt primarily consists of working capital borrowings. It has capex plans of Rs. 30.0 crore in FY2025 and Rs. 6.0 crore in FY2026, part of which is expected to be debt funded. Nonetheless, ICRA expects SBLL's capital structure to remain comfortable, going forward as well.

Part of the T S Krishna Group – SBLL enjoys lenders/investors comfort by virtue of belonging to the T S Krishna Group (part of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry). The promoters own a 65.5% stake in the company (as on December 31, 2023), with 32.7% held by Madurai Alagar Enterprises Private Limited and 13.8% by Mr. Krishna Mahesh, SBLL's Managing Director and fourth-generation member of the TVS family.

Credit challenges

Moderate scale of operations; relatively low accruals – The company has a moderate scale of operations with an operating income of Rs. 264.3 crore in 9M FY2024 and Rs. 357.4 crore in FY2023. This is despite the healthy YoY growth in FY2022 and FY2023, supported by healthy sales in both domestic and export markets. The cash accruals also remained low at Rs. 14.1 crore during 9M FY2024, despite improvement from FY2023 levels. ICRA notes that SBLL has introduced new product lines, the scale-up of which is expected in FY2025 and also undertaken various revenue and margin improvement measures, which could improve accruals, going forward. However, the extent of improvement remains to be seen, given the weak outlook for auto component exports in FY2025 and muted domestic CV demand expected in FY2025.

Vulnerability of revenues and earnings to inherent cyclicality in the CV industry – CV sales, which constituted a majority of SBLL's OEM revenues in 9M FY2024, remain inherently cyclical in nature, with industry volumes strongly correlated to the level of economic activity, industrial growth and infrastructure investments. Other factors like regulatory changes (emission norms, scrappage policy, etc.) and stiff competition leading to aggressive discounting practices, also impact volumes of industry players. While CV demand was healthy in FY2023, it was sluggish in a few earlier years, affected by revision in the axle load norms, tightened financing environment, and pandemic-induced lockdowns and interstate restrictions. It is expected to remain muted in FY2025 as well. While the company is taking measures to increase its revenues from the non-CV segment, its ability to achieve material segment diversification over the medium term remains to be seen.

SBLL faces competition from industry incumbents the unorganised segment in the domestic market; exports remain concentrated in USA – In the domestic market, SBLL continues to witness competition from industry incumbents such as Rane Brake Lining Limited (rated [ICRA]AA-/[ICRA]A1+; Rating Watch with Developing Implication), Masu Brakes Private Limited and Hindustan Composites Limited, to name a few. It continues to face competition from the unorganised segment in the replacement market as well. However, its established presence in the friction industry and strong market position mitigate the risk to an extent. While SBLL has a favourable export-domestic mix, it derives a significant portion of its export revenues from the US (~19% of revenue in 9M FY2024), exposing it to regional risks/slowdown in the market.

Environmental and Social risks

Environmental considerations – SBLL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, the prospects for SBLL are linked to the ability of its customers to meet tightening emission requirements. The company remains exposed to tightening environmental regulations with regard to waste and pollution, which can lead to an increase in operating and new capacity instalment costs. The company has been taking steps to minimise its carbon footprint and the impact of environmental risks on its operations, by enhancing its reliance on renewable sources and other energy-saving efforts such as adoption of energy-efficient fixtures/equipment and water recycling.

Social considerations – Social considerations for SBLL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. It is exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ridesharing.

Liquidity position: Adequate

SBLL's liquidity position remains adequate, with a comfortable buffer of Rs. 45.7 crore in working capital lines as on December 31, 2023. The average working capital utilisation stood at 48% against the sanctioned limits in the 12-monthperiod that ended in December 2023. The company had negligible cash balances as on December 31, 2023. Against these sources of cash, SBLL has debt repayment obligations of Rs. 2.1 crore in FY2025 and Rs. 3.0 crore in FY2026 on its existing loans. The company has a total capex of Rs. 30.0 crore in FY2025 and Rs. 6.0 crore in FY2026, to be funded through a mix of term debt and internal accruals. ICRA expects SBLL to be able to meet its medium-term commitments through internal sources of cash and debt.

Rating sensitivities

Positive factors – ICRA could upgrade SBLL's ratings, if it achieves significant improvement in its scale of operations and profitability indicators, resulting in improved credit metrics. A specific credit metric that could lead to an upgrade include Total Debt/OPBDITA of less than 2.3 times on a sustained basis.

Negative factors – Negative pressure on the ratings will arise from a sharp contraction in revenues and earnings or increase in debt levels, leading to moderation in coverage metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Sundaram Brake Linings Limited (SBLL) primarily manufactures asbestos-free friction material such as brake linings, disc pads and clutch facings for the automobile industry. It also manufactures tractor linings and friction material for industrial applications, and trades in rivets. SBLL caters to three broad segments – a) tier-I suppliers of automobile OEMs, b) aftermarkets—replacement, state transport units (STUs) and branded spares, and c) exports — to over 60 countries. The company has four operational manufacturing facilities in Padi (Tamil Nadu), Madurai (two plants; Tamil Nadu) and Chengalpattu (Tamil Nadu). As on December 31, 2023, the promoters held a 65.5% stake in the company. SBLL is part of the T S Krishna Group, which in turn is part of the larger TVS Group. The company is at present managed by Mr. Krishna Mahesh, a fourth generation TVS family member.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	298.2	357.4
PAT	0.1	-4.8
OPBDIT/OI	2.1%	1.4%
PAT/OI	0.0%	-1.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.4
Total debt/OPBDIT (times)	6.5	9.7
Interest coverage (times)	2.5	1.1

Amounts in Rs. crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities.

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024	Mar 02, 2023	July 04, 2022	May 21, 2021	July 24, 2020
1	Cash Credit	Long term	85.00	26.3	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2	Term loan	Long term	15.00	0.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
3	LC/CEL	Short term	4.07	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Working capital facilities – Sublimit	Short term	(65.00)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Bank Guarantee – Sublimit	Short term	(1.50)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term loan	Simple
LC/CEL	Very Simple
Working capital facilities – Sublimit	Simple
Bank Guarantee – Sublimit	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	Cash Credit	NA	8.84%-9.10%	NA	85.00	[ICRA]BBB+ (Stable)
NA	Term loan	FY2024	9.10%	FY2031	15.00	[ICRA]BBB+ (Stable)
NA	LC/CEL	NA	NA	NA	4.07	[ICRA]A2
NA	Working capital facilities – Sublimit	NA	NA	NA	(65.00)	[ICRA]A2
NA	Bank Guarantee – Sublimit	NA	NA	NA	(1.50)	[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:

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.

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