April 23, 2024

Bharat Seats 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 – Term loan	20.00	76.89	[ICRA]A- (Stable); reaffirmed and assigned for enhanced amount
Long-term– Fund-based working capital	35.20	35.20	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based working capital	30.00	30.00	[ICRA]A2+; reaffirmed
Long-term/ Short-term – Unallocated	0.80	0.00	-
Total	**86.00**	**142.09**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Bharat Seats Limited's (BSL) established position as a seat supplier to Maruti Suzuki India Limited (MSIL), and its favourable ownership structure with Suzuki Motor Company (SMC) and MSIL holding a combined equity stake of 29.6%. Its established market position provides healthy revenue visibility and is likely to help the company generate steady cash accruals, going forward, aiding it in maintaining its credit profile. BSL is one of the two suppliers of car seat sets for MSIL and continues to be the sole supplier of seat sets for several key models. The company enjoys technical collaborations with Toyo Seats Co. Ltd., Japan, for seats, and with Hayashi Telempu, Thailand, for its carpets, which has helped it adapt to the Original Equipment Manufacturer's (OEM's) technological requirements. The company is also the sole supplier of two-wheeler (2W) seats to Suzuki Motorcycle India Private Limited (SMIPL).

BSL recorded a healthy 29% YoY growth in revenues in FY2023 and 4% YoY growth (on a high base) in revenues in 9M FY2024, supported by growing demand for MSIL's vehicles and BSL's steady share of business (SOB) with the OEM. The company's EBIDTA margins also witnessed an YoY improvement as it stood at 4.4% in FY2023 (3.9% in FY2022) and 5.5% in 9M FY24, aided by easing in input prices and operational efficiencies. The company's ability to further improve its profitability over the near to medium term continues to remain a monitorable. During FY2023, the overall financial profile of the company remained healthy supported by an improvement in OPBITDA and low debt levels (Rs. 65.7 crore, including promoter term loan of Rs. 32.6 crore as of March 31, 2023), as evident by interest coverage and TD/OPBITDA of 12.7 times and 1.4 times, respectively.

Furthermore, the company started operations at its second plant in Suzuki Motor Gujarat's (SMG's) supplier park in Hansalpur, Gujarat in April 2023, which was set up at an outlay of ~Rs. 50 crore. During FY2024, the company incurred a overall capex of ~Rs. 40-45 crore towards construction of buildings and machinery at its existing plants in Manesar (Haryana) and Gujarat; its overall borrowings (WC and TL) increased to ~Rs. 88 crore as of March 31, 2024 (including promoter loans of Rs. 39.6 crore). Further, the company plans to set up a new plant at Kharkhoda (Haryana) in the MSIL supplier park, at an outlay of ~Rs. 53 crore in FY2025, with commencement of its operations expected from March 2025. It also plans to spend another ~Rs. 14 crore towards extension of building and additional production facilities at its existing plant in Bhorakalan (Haryana) and ~Rs. 30-35 crore towards new models/products of MSIL and SMIPL during the fiscal. BSL has been sanctioned fresh term debt of Rs. 60 crore in FY2024 to fund this expenditure of ~Rs. 100 crore in FY2025. Accordingly, the company is expected to witness some moderation in credit metrics in the near term due to an increase in borrowings. Despite this, the company's revenue prospects over the medium term are expected to remain healthy, aided by steady demand in the passenger vehicle (PV) industry and new business gains from the OEMs.

ICRA notes that the ratings continue to be constrained by the company's high dependence on the domestic market and MSIL, given that more than 85% of its revenues are linked to the OEM's performance. The same is mitigated to an extent by the company's healthy SOB with MSIL, along with the leadership position of MSIL in the PV segment.

Further, as discussed with the management, regarding the income tax search operations conducted earlier at the company's premises in May 2023, the business and operations of the company had continued without any disruptions and no demand notice/tax liability was raised by the IT department as of March 2024.

The Stable outlook reflects ICRA's opinion that despite the sizeable debt-funded capex plans in FY2025 and some weakening of the credit metrics in the near term, the same are expected to improve over the medium term backed by an increase in accruals and scheduled debt repayments and remain at levels commensurate to the rating level.

Key rating drivers and their description

Credit strengths

Well-established relationship with MSIL – BSL has an established relationship with MSIL, the market leader in the PV industry, and is one of the two suppliers of car seat sets for the OEM. The company currently caters to around one-third of the OEM's seat sets requirement. BSL registered a YoY growth of 16% in FY2023 and 8% in 9M FY2024 (annualised) for seat volumes sold to MSIL and the car seat segment's revenues grew steadily at 17% and 9% in FY2023 and 9M FY2024, respectively. The company has recently won business for a few new models of the OEM; of which it has already started supplying for two new models in FY2024. Moreover, the company manufactures carpet sets for some of the models of MSIL, even as the vertical forms a small share of its overall revenues (~5% in 9M FY2024). ICRA expects BSL to maintain a healthy SOB with MSIL over the near-to-medium term and continue to remain a critical supplier for OEM.

Favourable ownership with MSIL and SMC owning stakes in BSL, beside benefits of technical collaboration – BSL has been promoted by the Relan family and its key OEMs, MSIL and SMC. Both OEMs have a combined stake of 29.6% in BSL. Moreover, it enjoys technical collaborations with foreign players such as Toyo Seats Co. Ltd. (Japan) for seats and INOAC Corporation (Japan) for roof moulding and windshield components. This has aided BSL's in-house product development capabilities and helped in maintaining a healthy SOB with MSIL over the years.

Status as sole supplier of 2W seats to SMIPL providing diversification benefits – BSL remains the sole supplier of 2W seats for majority of the models of SMIPL. The overall supplies to SMIPL, including the seat sets and frame assemblies, accounted for ~10% in FY2023. The company has also been awarded business for the upcoming electric vehicle (EV) of SMIPL and is also working on launching new products for 2Ws. It has investment plans for its 2W plant in Bhorakalan in FY2025 towards setting up additional production facilities. While the revenue share from this division remains low at present, as this share increases, it is likely to provide greater diversification benefits to BSL over the medium term.

Credit challenges

High client concentration risk with more than 85% of revenues generated by MSIL – MSIL and SMG together accounted for more than ~88% of BSL's revenue in FY2023. This exposes the company to high customer concentration risk with its revenue prospects primarily remaining linked to MSIL's volumes. However, the same is partially mitigated by the company's healthy SOB with MSIL and the OEM's stake in the company. Additionally, the leadership position of MSIL in the PV segment helps in mitigating the risk to an extent.

Capacity expansion plans to lead to moderation in credit metrics in near term – The company has significant debt-funded capex plans in FY2025 to set up a new plant at the MSIL vendor park in Kharkhoda, Haryana, at an outlay of ~Rs. 53 crore, which is to be funded by debt of ~Rs. 30 crore and by internal accruals. It also plans to invest Rs. 45-50 crore, to be funded by another debt of ~Rs. 30 crore, towards extension of the building and additional production facilities at its Bhorakalan plant (~Rs. 14 crore) as well as for new models/products of OEMs (~Rs. 30-35 crore). This is likely to lead to some moderation in the debt metrics over the near term. However, expected ramp up of operations at this new plant with an increase in accruals and scheduled debt repayments would support improvement in credit metrics over the medium term.

ESG Considerations

Environmental considerations: Though BSL is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, its automotive manufacturing customers remain highly exposed to the same. Accordingly, BSL's prospects are linked to the ability of its customers (MSIL and SMIPL) to meet tightening emission requirements. The company has been taking steps to reduce its carbon footprint by enhancing its reliance on renewable sources and various energy saving efforts, such as implementing energy saving techniques on the shop floor. The company also manages effective handling of waste. BSL's exposure to litigation/ penalties from issues related to waste and water management remains low.

Social considerations: BSL, like most automotive-component suppliers, has a healthy dependence on human capital; and retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for its disruption free operations. BSL's annual reports indicate that the entity has been taking initiatives to support its vendors in upgrading their operations, skills, quality, and technology. The company has also implemented monthly, zone-wise safety audit systems for the safety of its employees and to ensure zero accident cases. Another social risk that BSL 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, BSL's strong track record in catering to leading automotive OEMs underscore its ability to mitigate these risks to an extent. Moreover, the company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

BSL's liquidity profile is adequate, supported by estimated net cash accruals of Rs. 40-50 crore in FY2024 and working capital buffer of ~Rs. 13 crore as on March 31, 2024. The company has capex plans of ~Rs. 100 crore in FY2025, which are to be funded by debt of ~Rs. 60 crore and by internal accruals. It is expected to have overall repayment obligations of ~Rs. 6 crore in FY2025 and ~Rs. 25 crore in FY2026 towards bank debt. In addition, BSL has promoter debt of Rs. 39.6 crore, as of March 31, 2024, for which there is no fixed repayment schedule, and repayments will depend on the cash flow generated by the company. Moreover, the company continues to enjoy healthy financial flexibility, as a part of the Rohit Relan Group.

Rating sensitivities

Positive factors – A sustained improvement in BSL's share of business with MSIL or diversification of its clientele through new business awards could result in a positive rating action. ICRA would also favourably consider any improvement in profitability indicators aided by cost efficiency and backward integration measures, such that the company can generate RoCE above 18% on a sustained basis.

Negative factors – A decline in share of business with MSIL or weakness in demand in the PV industry, leading to reduced scale of operations and weak cash accruals for BSL, ultimately impacting its return and credit metrics, could result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of BSL.

About the company

BSL is promoted by Mr. Rohit Relan and family. Following a family restructuring of the Relan Group, BSL's shareholding now resides with Mr. Rohit Relan and family.

The company is engaged in manufacturing cars seats and moulded floor carpets for MSIL and 2W seats for SMIPL. Currently, the company's manufacturing facilities are at Gurgaon, Manesar and Bhorakalan in Haryana, and at Surendra Nagar and Hansalpur in Gujarat. During 9M FY2024, the company derived ~84% of its revenues from its car seat assembly division, ~5% from motorcycle seat division and the rest from other divisions such as carpet sets, extrusion components for vehicle roofs, and frame components. The company's revenue is generated entirely from the domestic market.

Key financial indicators (audited)

BSL standalone	FY2022	FY2023	9MFY2024*
Operating income	817.6	1,051.0	788.7
PAT	11.9	21.5	17.0
OPBDIT/OI	3.9%	4.4%	5.5%
PAT/OI	1.5%	2.1%	2.2%
Total outside liabilities/Tangible net worth (times)	1.7	1.4	-
Total debt/OPBDIT (times)	1.2	1.4	-
Interest coverage (times)	8.2	12.7	7.3

*Source: Company, ICRA Research; * Limited audited; 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

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 23, 2024	May 30, 2023	Jan 05, 2023	Nov 26, 2021
1	**Fund Based-working capital**	Long-term	35.20	-	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**
2	**Fund Based-Term Loans**	Long-term	76.89	26.0	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**
3	**Non-Fund Based working capital**	Short term	30.00	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**
4	**Unallocated**	Long-term/short term	-	-	-	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**	**[ICRA]A-(Stable)/ [ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Fund-based working capital	Simple
Long-term fund-based – Term Loan	Simple
Short -term – Non fund-based working capital	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	NA	NA	35.20	[ICRA]A-(Stable)
NA	**Term Loan-I**	FY2023	NA	FY2028	16.89	[ICRA]A-(Stable)
NA	**Term Loan-II**	FY2024	NA	FY2029	30.00	[ICRA]A-(Stable)
NA	**Term Loan-III**	FY2024	NA	FY2029	30.00	[ICRA]A-(Stable)
NA	**Letter of Credit/ Bank Guarantee**	NA	NA	NA	30.00	[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 – 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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