June 06, 2024

# DRAS Engineering Private Limited: [ICRA]BBB+(Stable)/[ICRA]A2; assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| **Long-term Fund-based – Term loan** | 140.00 | [ICRA]BBB+(Stable); assigned |
| **Long-term Fund-based – Cash credit** | 10.00 | [ICRA]BBB+(Stable); assigned |
| **Long term / Short term – Interchangeable limits** | (8.00) | [ICRA]BBB+(Stable)/[ICRA]A2; assigned |
| **Total** | **150.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings assigned factor in the established track record of the promoter group (Sonalika Group) and the strategic importance of DRAS Engineering Private Limited (DRAS) to International Tractors Limited (ITL), the third largest tractor manufacturer in the country. DRAS is owned by the promoters of the Sonalika Group, who have more than 30 years of experience in the foundry business and are also the promoters/board members of ITL. The company is in the process of setting up a casting manufacturing unit in Hoshiarpur, Punjab to primarily cater to the casting requirements of ITL for its existing and upcoming plants. ITL is the third largest manufacturer of tractors in India and enjoyed a market share of 13.1% in FY2024. Further, it is the leading tractor exporter and had a strong market share of ~34% of tractor exports in India in FY2024. Association with ITL and strong market presence of the OEM provide healthy revenue visibility for DRAS and are likely to support a timely ramp-up in scale of operations. The strong credit profile of the Sonalika Group (with the flagship company ITL rated [ICRA]AAA (Stable)/[ICRA]A1+) is also likely to continue to aid the financial flexibility of DRAS.

The foundry unit of DRAS is being set up at an estimated cost of about Rs. 330 crore (with a capacity of ~72,000 million tonnes per annum), to be funded by debt-to-equity mix of 3:1. The project cost was revised upward from ~Rs. 200 crore (previous planned capacity of ~28,800 million tonnes per annum) as the management decided to enhance the company's scale of operations. The promoters have already brought in their funding in the form of equity and interest-free unsecured loans (as per the initial project cost) and the term debt (as per the initial project cost) has already been tied up, thus reducing the funding risk. The company is in advanced discussions with bankers to tie up debt for the revised project cost, and the promoters are expected to bring in additional funds in a timely manner to support the construction of the project and help meet any debt servicing requirements till the operations scale up.

ICRA notes that about 60% of the work has been completed for the entire project, and the company has already commercialised the production in one of the moulding lines from March 2024, reducing the project execution risk to an extent. DRAS is expected to fully commercialise the plant (including the second moulding line) from September/October 2024 and is targeting to stabilise the operations by the end of FY2025. The company's ability to complete execution, ramp up production and achieve desired operating parameters would be monitored.

However, the ratings remain constrained as DRAS is a project-stage entity, and remains exposed to execution risk and associated cost/time overrun. Even as the management is targeting businesses from entities outside the group as well, the customer concentration for the entity is likely to remain high, with supplies to ITL expected to constitute the bulk of the revenues in the medium term. ICRA notes that the company is unlikely to be self-sufficient to meet its debt servicing obligations in the near term and would thus remain dependent on timely support from promoters besides a healthy ramp-up in scale of operations. In this regard, the strong financial risk profile of the Sonalika Group and the strategic importance of DRAS to the Group provide comfort regarding the timely infusion of funds by the promoters to meet any funding requirements.

The Stable outlook on DRAS' long-term rating reflects ICRA's opinion that the company will continue to benefit from timely funding support from its strong promoters and achieve a timely ramp-up in the scale of operations, aided by a gradual increase in supplies to the associate company, ITL.

## Key rating drivers and their description

### Credit strengths

**Long experience and established track record of the promoters in automotive industry –** DRAS is promoted by Mr. LD Mittal, Mr. Deepak Mittal, and Mr. AS Mittal, who are also the board members of ITL, the flagship company of the Sonalika Group. They have more than three decades of experience in the automotive industry. The established track record of the promoters in the automotive industry is expected to aid DRAS in the timely completion/stabilisation of the project. The strong credit profile of the Sonalika Group is also likely to continue to aid the financial flexibility of DRAS.

**Strategic importance to ITL provides healthy revenue visibility –** DRAS is being set up as a captive consumption unit to cater to the casting requirements of ITL for its existing and upcoming plants. As per the memorandum of understanding between DRAS and ITL, the latter will procure certain volume of finished products from DRAS. ITL will supply scrap and other raw materials needed by DRAS. This arrangement provides comfort about the revenue growth prospects as well as the raw material supply for DRAS. The location of DRAS' plant (in vicinity to ITL's plant) is expected to entail logistics cost savings and support scale-up of operations.

### Credit challenges

**Project exposed to execution and associated cost/time overrun risks –** As DRAS is a project-stage entity, it remains exposed to time and cost overruns, which might lead to incremental requirement of funds from promoters and delay in commercialisation and ramp-up of the operations. ICRA notes that the major part of the construction work related to the original business plan has been completed by March 2024, and the company has commenced production for one moulding line. The second moulding line is expected to be operational towards the end of CY2024. Nonetheless, the ability of the company to complete the project within the timeline continues to remain monitorable.

**Exposed to high customer concentration risk; mitigated to an extent because of healthy market share of ITL –** The company's plant is being set up primarily as a captive unit to cater to the requirements of ITL, and thus the project remains exposed to the customer concentration risk. Even as the management is targeting businesses from entities outside the group as well, the customer concentration for the entity is likely to remain high, with supplies to ITL expected to constitute the bulk of the revenues in the medium term. Thus, increase of the business will be linked to the operations and growth of ITL, and the ability of DRAS to gain a share of business in supplies to ITL. Notwithstanding the same, ITL being the third largest player in domestic sales and a market leader in exports in FY2024 provides revenue visibility for DRAS. ITL's healthy presence in the exports market also mitigates the impact of cyclicality inherent in the domestic tractor industry to an extent.

**Dependence on funding support from promoters till operations ramp up –** As DRAS is a project-stage entity, the company is expected to remain dependent on timely infusion of funds by promoters to meet its loss funding and debt servicing requirements, till its operations scale up. The promoters of DRAS have vast experience of more than three decades in the automotive industry. Till date, the promoters have met the funding requirements of the project, as and when required, in the form of equity and interest-free unsecured loans and are expected to continue to provide any incremental support required, going forward.

## Liquidity position: Adequate

The company's liquidity position is expected to remain **adequate** because debt funding as per the initial project plan has been tied up and 100% of promoter contribution (including unsecured loans) has already been infused in the project. The balance term debt (about the planned increase in the scale of the project) is expected to be tied up shortly, with promoters also expected to infuse funds promptly. The company has repayment obligations of about Rs. 17.5 crore in FY2025 and would remain dependent on timely funding from promoters to meet the same. The strong promoter group coupled with the strategic importance of the entity for the Sonalika Group provides comfort about fund infusion by the promoters.

## Rating sensitivities

**Positive factors –** The ratings could be upgraded in case of timely completion and stabilisation of the project, and a significant scale-up in the revenues and profitability of the company, leading to an improvement in the debt coverage metrics.

**Negative factors –** The ratings could witness a downward revision in case of a material delay in the completion of the project, leading to time and cost overruns. The ratings could be further impacted by any delay in receipt of support from promoters, thereby weakening its debt coverage metrics.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Auto components |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

DRAS Engineering Private Limited (DRAS) was incorporated on September 15, 2022, and is an associate company of International Tractors Limited (ITL) and is a part of the Sonalika Group. ITL is currently the third largest tractor manufacturer in India and is the leading exporter of tractors from India. DRAS was incorporated for setting up a foundry plant with an installed capacity of 28,800 MTPA (now revised to 72,000 MTPA) in Hoshiarpur, Punjab. It has been set up as a backward integration initiative for supplying castings to ITL. The company is promoted and equally held by Mr. LD Mittal, Mr. AS Mittal, and Mr. Deepak Mittal, who are also the board members of ITL.

### Key financial indicators

Not applicable as it is a project stage entity.

## 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 Mar 31, 2024 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | Jun 06, 2024 | - | - | - |
| 1 | **Term loans** | Long term | 140.00 | 114.54 | **[ICRA]BBB+(Stable)** | - | - | - |
| 2 | **Cash credit** | Long term | 10.00 | - | **[ICRA]BBB+(Stable)** | - | - | - |
| 3 | **Interchangeable** | Long term / Short term | (8.00) | - | **[ICRA]BBB+(Stable)/ [ICRA]A2** | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term Fund-based – Term loan** | Simple |
| **Long-term Fund-based – Cash credit** | Simple |
| **Long term / Short term – Interchangeable 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 loans** | FY2024 | NA | FY2031 | 140.00 | [ICRA]BBB+(Stable) |
| **NA** | **Cash credit** | NA | NA | NA | 10.00 | [ICRA]BBB+(Stable) |
| **NA** | **Interchangeable** | NA | NA | NA | (8.00) | [ICRA]BBB+(Stable)/[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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## ICRA Limited

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