

September 09, 2024

Remsons Industries Limited: Ratings upgraded to [ICRA]BBB (Stable)/ [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	24.00	24.00	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based – Overdraft	8.00	8.00	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based – Term loans	8.01	13.50	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based – Vendor Financing	10.00	-	-
Short-term – Fund-based – Bill Discounting (Channel financing)	15.00	15.00	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term – Non-fund Based	3.00	3.00	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term – Unallocated	8.81	13.32	[ICRA]A3+; Upgraded from [ICRA]A3
Total	76.82	76.82	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in ratings for the bank lines of Remsons Industries Limited (RIL) considers the expected improvement in its credit profile, supported by equity fund raise of Rs. 63 crore in FY2024 apart from the favourable demand prospects. RIL's business profile is improving with focus on exports and high-margin product sales with planned diversification into new segments. This coupled with reduction in debt as well as increase in profitability led to an improvement in debt coverage metrics, which is expected to sustain in the near-to-medium term. In FY2024, RIL reported an operating income of Rs. 312.3 crore with an operating margin of 9.9%. In Q1 FY025, it reported an operating income of Rs. 76.5 crore with an operating margin of 8.5%.

ICRA notes that the company is looking to diversify its product portfolio and has invested in three joint ventures (JVs), which are in the businesses of sensors/tyre puncture kits/infotainment systems for automobiles. These JVs at present are at the nascent stage of operations, with only one of the JVs being operational. Hence, the ability of the company to scale up these to meaningful scale and generate adequate returns remain critical from the credit perspective, going forward. The ratings also continue to factor in the extensive experience of the company's promoters in the auto ancillary industry and its established client base, comprising leading domestic and international automobile original equipment manufacturers (OEMs).

The ratings, however, are constrained by the company's moderate scale of operation and susceptibility of earnings to cyclicity in the automotive industry and volatility in raw material prices. The ability of the company to pass on such raw material increases, in a timely manner, remains critical for protecting its margins. The ratings also factor in the intense competition from domestic and international players, and high client concentration risk.

The Stable outlook reflects ICRA's opinion that the company will continue to maintain its credit profile, given stable domestic demand, adequate liquidity and established track record of servicing its clients.

Key rating drivers and their description

Credit strengths

Long and established track record of promoters in auto ancillary industry – Remsons was incorporated by Mr. V. Harlalka on May 11, 1971, as a manufacturer of auto ancillary components, mainly auto control cables and gear shift assemblies. The promoters have an extensive track record of over five decades in the auto ancillary business. The company acquired the UK entity, Magal Cables Limited (now Remsons Automotive Limited [RAL]), in H2 FY2021, which operates in a similar business, manufacturing components like cable assemblies and pedal box systems. The acquisition strengthens RIL's presence in the export market and aids in revenue growth.

Established relationships with reputed clients – The client base of the company includes reputed automobile OEMs in the domestic and export markets such as Hero Moto Corp Limited, Tata Motors Limited, Ashok Leyland Limited, Force Motors Limited and Mahindra & Mahindra Limited, among others. The company has relationships of 15-30 years with its clients. RIL caters to globally reputed players such as Ford Motors Ltd., Jaguar Land Rover (JLR), and Ineos Automotive Limited. The established relationships with its customers and limited churning in its customer base have ensured significant repeat business.

Comfortable financial risk profile, improvement in capitalisation indicators witnessed post equity infusion in FY2024 – The financial profile of RIL is comfortable with positive traction in its coverage indicators and capital structure witnessed in FY2024. RIL infused equity worth Rs. 63 crore and its gearing ratio improved significantly to 0.61 times as of March 31, 2024, from 1.8 times as of March 31, 2023. With focus on high-margin clients, the operating margins also increased, which in turn led to an improvement in debt protection metrics. Its TD/OPBIDTA and interest coverage improved to 2.19 times and 4.56 times, respectively in FY2024 from 2.95 times and 4.12 times, respectively in FY2023. Given no large debt-funded capex on cards in the near-to-medium term, the debt protection metrics are expected to remain comfortable.

Credit challenges

Moderate scale of operations; profit margins remain susceptible to volatility in raw material prices and labour costs – The company's scale of operations remains moderate with an operating income of ~Rs. 312 crore, with flat growth witnessed in FY2024, on account of model specific offtake issue with few clients. The company posted a growth in exports as well as in its UK subsidiary, which has helped restrict the loss of sales at the consolidated level. Going forward, with efforts to diversify the product base, the company has invested in three JVs, with one already operational in the current fiscal. Given that these JVs at present are at very nascent stage of operations, the ability of the company to scale up these to meaningful magnitude, to achieve sound growth at the consolidated level, remains key from the credit perspective. The key raw materials for the company are steel, plastic, PVC, zinc and other consumables. In addition, labour and other operating overheads also constitute a significant part of the company's overall cost structure. Given its limited ability to pass on the increase in labour and manufacturing expenses to its customers due to its low bargaining power and intense competition, the profitability remains vulnerable to such price movements. Moreover, any rise in key input materials, will also keep the margin under pressure. Hence, the ability of the company to seek price revisions in a timely manner from its key OEM customers remains critical.

Stiff competition from organised players in OEM segment and large unorganised segment in the replacement market – The company faces stiff competition from other auto component manufacturers in the domestic as well as export markets in case of OEM sales. Further, the replacement market remains largely unorganised in India at present, thus limiting the company's bargaining power to some extent.

Considerable client concentration – The company's dependence on its top customers continues in FY2024 as well with the top 10 customers accounting for ~77% of the total revenues. The company's clientele consists of reputed OEMs in both the domestic and export markets and its established relationships with them for over a decade, ensuring repeat business, provide comfort to some extent.

Environmental and Social Risks

Environmental considerations: Even as RIL is not directly exposed to climate-transition risks from the likelihood of tightening emission-control requirements, with its products being used by different categories of OEMs, its automotive manufacturing customers remain highly exposed to the same. Accordingly, the company’s prospects are linked to the ability of its customers to meet tightening emission requirements. The company undertakes organisation-wide measures towards making its manufacturing processes and products sustainable and has been investing accordingly in safer, lighter and greener technologies. The company has expanded its solar rooftop capacity at its Daman and Pune plant. Apart from this, the company has undertaken activities with respect to safeguarding the environmental and ecological balance as a part of its CSR activities.

Social considerations: RIL, like most automotive component suppliers, has a healthy dependence on human capital. As such, retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations for the entity. The entity has been taking initiatives to impart training to its employees towards improvement of their capacity and capabilities. Another social risk that RIL faces pertains to product safety and quality, wherein instances of product recalls and high-warranty costs may lead to financial implication and harm the reputation, and create a more long-lasting adverse impact. In this regard, RIL’s strong track record in catering to leading automotive manufacturers underscore its ability to mitigate these risks to an extent.

Liquidity position: Adequate

The liquidity position is adequate, supported by the expected adequate cash flow generation against the annual debt repayment obligations of Rs. 3 to 4 crore between FY2025 and FY2027. The company also had adequate liquidity cushion in terms of undrawn working capital limits of Rs. 10.5 crore as on May 31, 2024 (from the total limit of Rs. 32 crore). The company also had healthy cash and liquid investments of Rs. 44.9 crore as of March 31, 2024, out of which ~Rs. 30 crore would be utilised towards JVs, and the rest towards working capital requirements and general corporate purpose, as per the latest equity infusion objectives.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if steady and sustained improvement in scale of operations, along with improvement in profitability and working capital cycle, strengthens the overall financial profile and liquidity position.

Negative factors– Pressure on RIL’s ratings could arise, if there is any substantial decline in scale of operations or profitability, leading to deterioration in key credit metrics marked by interest coverage ratio dropping below 3 times, on a sustained basis. Further, any large debt-funded capex or stretch in receivables deteriorating the liquidity profile, would also pose a pressure on RIL’s ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated profile of Remsons Industries Limited and its subsidiaries/JVs, details of which are listed in Annexure-2.

About the company

Remsons Industries Limited was incorporated in 1971 by Late V. Harlalka as Remsons Cables Industries Private Limited (RCPL). In May 1984, RCPL took over the auto component trading business of Remsons India, a partnership concern, which was initially a proprietorship concern of Late V. Harlalka. Subsequently, RCPL was converted into a public limited company in October 1986

and was renamed as Remsons Industries Limited in November 1986. Further, Daman Auto Industries Ltd., Rems Auto Engineers Ltd., and Remsons Auto Industries Pvt. Ltd. were amalgamated with the company with effect from April 2005.

Remsons manufactures auto components such as auto control cables, flexible shafts, gear shift systems, push-pull cables and parking brake mechanisms. The company caters to domestic OEMs and exports auto control cables to Europe and the US, with Europe accounting for the bulk of the exports. Remsons also supplies various auto control cables in the replacement market. The company has manufacturing plants across Gurgaon (Haryana), Daman, Pardi (Gujarat), Pune (Maharashtra) and Stourport (UK). The design and validation facilities are in Gurgaon, Pune and Mumbai. All the facilities are ISO/TS 16949: 2009 and ISO 9001: 2008 certified. The Gurgaon unit is additionally ISO 14001: 2004 certified. In September 2020, the company acquired a UK-based company, Magal Cables Limited, over which it assumed control from October 15, 2020. The UK company is ISO/TS16949:2009, Ford Q1, JLRQ and Renault Ases certified. In FY2024, RIL has also formed three new JVs to improve its product offerings.

Key financial indicators

Consolidated	FY2023	FY2024
Operating income	312.8	312.3
PAT	8.4	13.3
OPBDIT/OI	8.3%	9.9%
PAT/OI	2.7%	4.3%
Total outside liabilities/Tangible net worth (times)	3.5	1.1
Total debt/OPBDIT (times)	3.0	2.2
Interest coverage (times)	4.1	4.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

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)	Sept 9, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	24.00	[ICRA]BBB (Stable)	06-JUL-2023	[ICRA]BBB (Stable)	22-JUN-2022	[ICRA]BBB (Stable)	31-MAR-2022	[ICRA]BBB (Stable)
				-	-	02-JAN-2023	[ICRA]BBB (Stable)	-	-
Long term-others-fund based	Long Term	0.00	[ICRA]BBB (Stable)	06-JUL-2023	[ICRA]BBB (Stable)	22-JUN-2022	[ICRA]BBB (Stable)	-	-
				-	-	02-JAN-2023	[ICRA]BBB (Stable)	-	-
Short term- Bill discounting (channel financing)-fund based	Short Term	15.00	[ICRA]A3+	06-JUL-2023	[ICRA]A3	22-JUN-2022	[ICRA]A3	-	-
				-	-	02-JAN-2023	[ICRA]A3	-	-
Short term-others-non fund based	Short Term	3.00	[ICRA]A3+	06-JUL-2023	[ICRA]A3	22-JUN-2022	[ICRA]A3	31-MAR-2022	[ICRA]A3
				-	-	02-JAN-2023	[ICRA]A3	-	-
Short term-unallocated-unallocated	Short Term	13.32	[ICRA]A3+	06-JUL-2023	[ICRA]A3	22-JUN-2022	[ICRA]A3	-	-
				-	-	02-JAN-2023	[ICRA]A3	-	-
Long term-overdraft-fund based	Long Term	8.00	[ICRA]BBB (Stable)	06-JUL-2023	[ICRA]BBB (Stable)	22-JUN-2022	[ICRA]BBB (Stable)	31-MAR-2022	[ICRA]BBB (Stable)
				-	-	02-JAN-2023	[ICRA]BBB (Stable)	-	-
Long term-term loan-fund based	Long Term	13.50	[ICRA]BBB (Stable)	06-JUL-2023	[ICRA]BBB (Stable)	22-JUN-2022	[ICRA]BBB (Stable)	31-MAR-2022	[ICRA]BBB (Stable)
				-	-	02-JAN-2023	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Cash Credit	Simple
Long term - Fund based- Overdraft	Simple
Long term - Fund based – Term loans	Simple
Short term - Fund based- Bill discounting	Simple
Short term - Non-fund based	Very Simple
Short term – Unallocated	Not Applicable

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	24.00	[ICRA]BBB (Stable)
NA	Overdraft	NA	NA	NA	8.00	[ICRA]BBB (Stable)
NA	Term loans	Jun-2024	NA	Jun-2039	13.50	[ICRA]BBB (Stable)
NA	Bill discounting	NA	NA	NA	15.00	[ICRA]A3+
NA	Non-fund based	NA	NA	NA	3.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	13.32	[ICRA]A3+

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
Remsons Holdings Limited (RHL)	100%	Full Consolidation
Remsons Properties Ltd (Step Down Subsidiary of RIL); (erstwhile Woolford Properties Ltd.)	100%	Full Consolidation
Remsons Automotive Ltd (Step Down Subsidiary of RIL); (erstwhile Magal Automotive Ltd.)	100%	Full Consolidation

Source: Company data;

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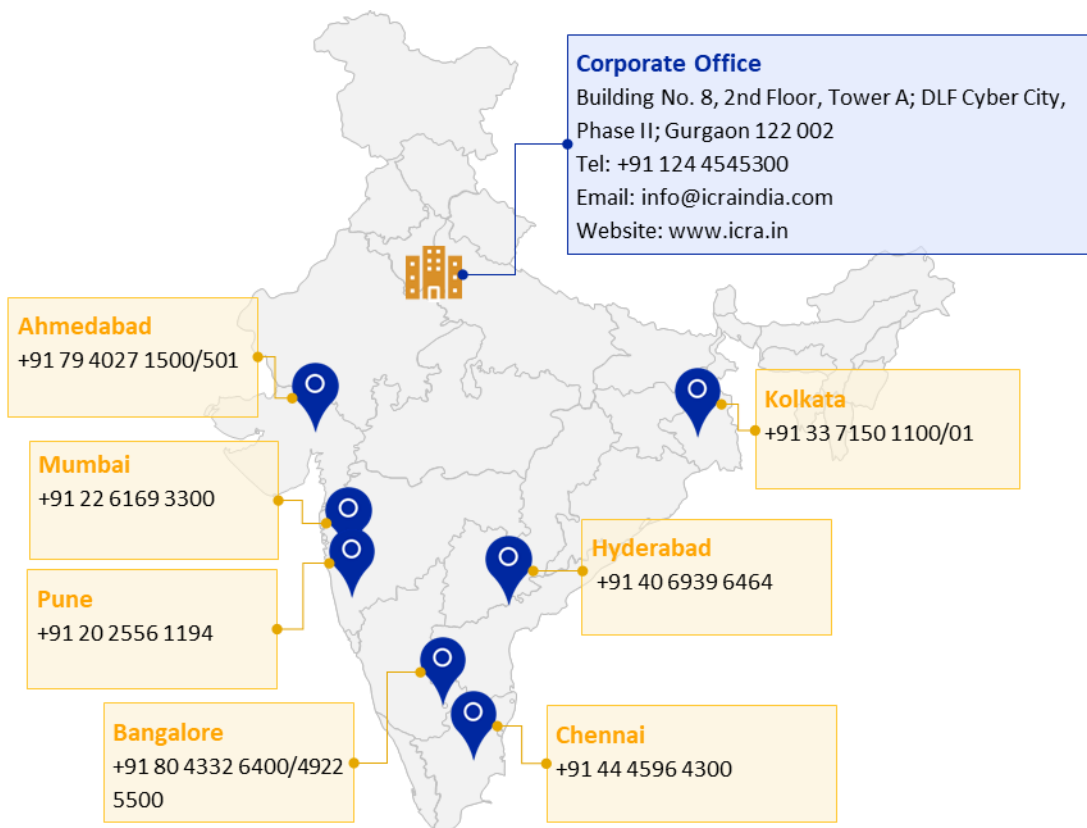
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