

August 30, 2021

## Track Components Ltd: Ratings reaffirmed; outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long/Short Term – Fund/Non-Fund Based Limits	45.00	45.00	[ICRA]BB- / [ICRA]A4 reaffirmed; Outlook revised to Positive from Stable
<b>Total</b>	<b>45.00</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes into consideration Track Components Ltd.'s (TCL) position as a captive supplier to Mark Exhaust Systems Limited (MESL, a joint venture between TCL's promoters and Maruti Suzuki India Limited (MSIL). ICRA notes TCL's healthy share of business with Mahindra and Mahindra Limited (M&M) with its manufacturing facilities being strategically located in proximity to MESL and M&M production facilities. The rating continues to factor in the extensive experience of TCL's promoters in the domestic automotive industry and track record of financial support received from them in the form of unsecured loans, which are largely interest free.

The ratings remained constrained by weak operating performance in FY2021, impacted by the Covid-19 pandemic, its elongated working capital cycle and moderately high leveraged capital structure. TCL's financial risk profile is further constrained by its stretched liquidity profile due to high debt obligations, low cash balances and minimal buffer in working capital credit facilities.

The ratings are also constrained by TCL's client and segment concentration risks in addition to high competition in the business. Nevertheless, the revision in the outlook to Positive factors in the expected, significant pick-up in operating performance owing to strong order pipeline from M&M, supported by healthy demand recovery and planned new launches as well as a moderation in the working cycle.

### Key rating drivers and their description

#### Credit strengths

**Established business relationships and healthy share of business with its customers** – The company is involved in manufacturing various tubular as well as sheet metal components and assemblies, such as sliding door mechanisms, cross car beam (CCB) assemblies, body-in-white (BIW) assemblies, door sash and mufflers. TCL services MESL from its Manesar (Haryana) plant, and M&M from its Pune and Nashik (Maharashtra) plants, enjoying 100% share of business for supplying specific category components for select models of these OEMs.

**Demonstrated track record of financial support from promoters through infusion of unsecured loans** – ICRA notes TCL's track record of receiving financial support from its promoters and related entities as reflected by the infusion of unsecured loans. As on March 31, 2021, these unsecured loans stood at Rs. 101 crore (PY: Rs. 105.8 crore). The company does not pay out interest on most of these loans. ICRA also notes that the management has plans to convert a portion of unsecured promoter loans into equity and increase the authorised share capital in FY2022.

**Healthy orderbook in FY2022 to support revenues and operating margins** – The company has received a strong FY2022 orderbook of Rs. 230-240 crore from M&M owing to the increase in the production of its existing PV models, such as Thar, XUV 300, Bolero, etc., and planned new product launches. Since the company is a tier-I supplier to M&M, whose business commands higher margins than MESL, for whom it is a tier-II supplier. The business from MESL continues to be steady. Thus, with a favourable demand outlook, the company is expected to improve its revenues and margins in FY2022. In 4M FY2022, the company has booked revenues of Rs. 73 crore.

### Credit challenges

**High client concentration risk with total revenues emanating from two customers** – Over the years, the revenues of the company has been driven by only three customers—MESL, M&M and Honda Motorcycle & Scooter India (HMSI)—indicating a high client concentration risk. Moreover, with discontinuation of supplies to HMSI from October 2017, the company's dependence on its two other customers increased further. In terms of segment, the dependence of TCL's revenues to the performance of the domestic passenger vehicle segment is also high. Nonetheless, TCL's position as a captive supplier to MESL and a healthy share of business with M&M provides comfort to an extent.

**High leverage and modest debt coverage, though expected to improve** – The company has a weak financial risk profile, characterised by a low RoCE (4.1% in FY2021), high gearing (4.6 times as on March 31, 2021) and muted coverage indicators (Total Debt/OPBITDA of 11.3 times and interest cover of 1.1 times in FY2021). Adjusted for the unsecured promoter loans of Rs. 100.9 crore, the gearing would be 2.3 times and TD/OPBITDA would be 5.7 times. Since the company does not pay out interest on these loans, the interest coverage is higher at 1.6 times in FY2021. With expected improvement in accruals in FY2022, the gearing and coverage indicators are expected to improve.

**Stretched working capital cycle in FY2020 and FY2021, albeit expected to moderate** - The company's working capital intensity (NWC/OI) stood at 57% as on March 31, 2021, compared to 51% as on March 31, 2020. This was primarily driven by the significant slump in auto demand and pandemic impact, resulting in significant increase in debtor and inventory days. With significant sales recovery expected in FY2022, ICRA expects working capital intensity to substantially moderate in the medium term.

**Intense competition in automotive ancillary industry exerts pressure on margins** – Despite healthy scale up in operations over the years, the operating margins of the company had remained range bound owing to the presence of other automotive component manufacturers, which exerts pricing pressures. With an increasing number of domestic as well as international players in the automotive ancillary business, the competition has increased over the years. Nonetheless, TCL's established client relationships and healthy share of business for its products mitigate the risk to a certain extent.

### Liquidity position: Stretched

TCL's liquidity position is stretched owing to modest cash balances and minimal buffer in working capital limits as they are almost fully utilised. The company has high debt repayment obligations of Rs. 20-24 crore and maintenance capex requirements of Rs. 3-4 crore. However, any mismatches in the cash flows are expected to be funded by the promoters and promoter entities, which supported the company financially in the past.

### Rating sensitivities

**Positive factors** – A positive rating action could be triggered if there is a healthy scale-up in revenue and, consequently, cash accruals. Improvement in the liquidity profile of the company through a lower working capital cycle could also be factored in favourably for a rating upgrade. Specific credit metrics, such as interest cover above 2.0 times on a sustained basis, could result in a positive rating action.

**Negative factors** – Any significant decline in revenue and/or a further moderation in net profit margin and the consequent cash accruals could further tighten TCL's liquidity and its ability to meet its repayment obligations, thus, leading to a downward

revision in outlook and/or ratings. An interest cover of 1.3 times or below on a sustained basis could also lead to a negative rating action.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 1999, TCL is an auto component manufacturer of smaller-sized sheet-metal based components and tubular pipes. The company started as a captive supplier of MESL and gradually diversified its customer base to include M&M. TCL's tubular pipe assemblies and sheet metal components find application in manufacturing two-wheelers and four-wheelers. The company is promoted by Mr. Rattan Kapur, who is also the chairman and managing director of MESL, as well as Mr. Sandeep Chandhok. Both promoters have extensive experience of more than three decades in the auto component industry. Mr. Rattan Kapur has also served as the president of the Automotive Components Manufacturers Association (ACMA). The company currently has three manufacturing facilities, with one each at Manesar (Haryana), Nashik and Pune (Maharashtra).

In FY2021, the company reported a turnover of Rs. 175.6 crore and nearly 42% of it was generated from its group company, MESL, to whom it supplies sheet metal components and tubular assemblies that are used in manufacturing exhaust systems. MESL is one of the leading suppliers of exhaust systems to MSIL in India. The remaining 58% of sales came from M&M.

## Key financial indicators (audited)

TCL	FY2020	FY2021*
Operating Income (Rs. crore)	197.0	175.6
PAT (Rs. crore)	0.3	-6.1
OPBDIT/OI (%)	11.1%	10.2%
PAT/OI (%)	0.2%	-3.5%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	6.2
Total Debt/OPBDIT (times)	8.9	11.3
Interest Coverage (times)	1.2	1.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*basis provisional estimates

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021* (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Aug 30, 2021	Oct 05, 2020	May 18, 2020	Feb 24, 2020	Aug 09, 2018	
1	Fund-Based /Non-Fund Based Limits	Long Term/ Short Term	45.0	42.7	[ICRA]BB- (Positive) / [ICRA] A4	[ICRA]BB- (Stable) / [ICRA] A4	[ICRA]BB- (Stable) / [ICRA] A4 ISSUER NOT COOPERATING	[ICRA]BB- (Stable) / [ICRA] A4	[ICRA]BB (Stable) / [ICRA] A4	
2	Fund based – Term loans	Long term	-	-	-	-	-	-	[ICRA]BB (Stable)	

&= Under watch with developing implications; \*based on provisional estimates

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long/Short Term – Fund/Non-Fund Based Limits	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-Based / Non-Fund Based Limits	NA	NA	NA	45.0	[ICRA]BB- (Positive) / [ICRA] A4

Source: Company

**Annexure-2: List of entities considered for consolidated analysis – Not applicable**

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Sheetal Sharad**

+91 124 4545374

[sheetal.sharad@icraindia.com](mailto:sheetal.sharad@icraindia.com)

**Kinjal Shah**

+91 22 6114 3442

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Dishant Mahajan**

+91 9971013432

[dishant.mahajan@icraindia.com](mailto:dishant.mahajan@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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