

January 31, 2022

Ralson (India) Limited: Long-term rating reaffirmed; short-term rating downgraded to [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	66.24	66.24	[ICRA]A+ (Stable); Reaffirmed
Fund Based Limits	9.26	9.26	[ICRA]A+ (Stable)/ [ICRA]A1; Long-term rating reaffirmed; Short-term rating downgraded from [ICRA]A1+
Fund/Non Fund-based Limits	3.09	3.09	[ICRA]A1; Downgraded from [ICRA]A1+
Fund Based Limits	15.00	15.00	[ICRA]A1; Downgraded from [ICRA]A1+
Term Loans	37.41	37.41	[ICRA]A+ (Stable); Reaffirmed
Non Fund-Based Facilities	24.00	24.00	[ICRA]A1; Downgraded from [ICRA]A1+
Total	155.00	155.00	

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the short-term rating considers the deterioration in the liquidity profile of Ralson (India) Limited (Ralson), characterised by a decline in its liquid investments and increase in its working capital utilisation (to 64% during the 7-month period ending in October 2021), because of the ongoing investment in its subsidiary, Ralson Tyres Limited (RTL). With the aim of entering the truck and bus (T&B) tyre market, Ralson is setting up a T&B radial tyre plant with a manufacturing capacity of ~8.5 lakh units p.a, under RTL. The total project cost is estimated at ~Rs. 600 crore, which is being funded by a mix of Ralson's internal accruals and available cash balances, equity infusion by promoters in their personal capacity or via other promoter entities, and ~Rs. 388 crore term loans from banks (which is secured by corporate guarantee from Ralson). While RTL is likely to face high competition in the T&B tyre segment, its strong brand name, extensive experience of the promoters in the tyre industry, and Ralson's strong distribution network and marketing tie-ups are expected to help ramp up its scale of operations in a relatively quick timeframe post commercialisation of operations. Moreover, the demand for T&B tyres in the domestic market is likely to remain healthy over the medium term given the restrictions imposed on import of tyres by the Directorate General of Foreign Trade (DGFT). Despite these expectations, any significant time or cost overruns in the implementation of the project could impact Ralson's credit profile and would remain a key monitorable.

The ratings continue to favourably factor in the strong market position of Ralson in the bicycle tyre and tube segments, aided by its established brand, widespread distribution network and its diversified business mix with strong presence across segments (including the replacement market and original equipment manufacturer (OEM) market). Ralson is positioned as a market leader in the domestic bicycle tyre market and enjoys a strong presence with leading bicycle OEMs in India. The company is also present in the automobile tyre segment, wherein it caters primarily to the replacement market at present and faces competition from established tyre manufacturers.

The ratings also take into account the management's increased focus on scaling up the company's presence in the automobile tyre and premium bicycle tyre segments as well as in international markets. Aided by its efforts, the company reported a healthy revenue growth of 64% in the automobile tyre segment and 71% in exports in H1 FY2022. Further, the company

reported a robust YoY revenue growth of ~24% at Rs. 830 crore in 9M FY2022, aided by increase in both volumes and realisation across the cycle tyre and automobile tyre segments. Going forward, the company's scale of operations is likely to improve over the medium term, aided by increasing presence in automotive tyres and incremental revenues from the T&B tyre business (expected revenues of Rs. 700-900 crore p.a. in the initial years of operations).

The ratings remain constrained by the high revenue concentration in the bicycle tyre segment (75-80% of revenues) and intense competition in the industry. Hence, Ralson's financial performance remains largely aligned to the underlying demand trends in the bicycle industry. Further, the company's operating margins are exposed to fluctuations in raw material prices, resulting in volatility in profitability indicators. In FY2021, the company's operating profit margin (OPM) improved to 12.4% aided by lower raw material cost and improvement in realization with higher share of premium cycle tyres. However, a rise in input prices have impacted the margins in the current fiscal with OPM declining to 9.9% in H1 FY2022. Going forward, though the foray into the premium tyre segment augurs well for its margins, ICRA expects the margin trend to continue to remain exposed to raw material price movements.

The Stable outlook on the long-term rating reflects ICRA's expectation that Ralson will continue to maintain its leadership position in the Indian bicycle tyre industry, aided by its well-established brand and strong business relationship with leading bicycle OEMs in India; the same is likely to continue to aid the company's earnings profile. Further, aided by its healthy cash flow generation, the company's credit metrics are likely to remain comfortable despite the ongoing debt-funded capex.

Key rating drivers and their description

Credit strengths

Market leader in bicycle tyre segment in India – With a turnover of Rs. 697.1 crore in FY2021 from the bicycle tyre segment, Ralson is positioned as the market leader in the Indian bicycle tyre industry with a market share of ~40%¹ among organised players. The company's strong market position is supported by its well-established brand, its well-entrenched distribution network and established relationships with virtually all leading bicycle OEMs in India. The bicycle tyre market is characterised by a few large players and several unorganised players. In the organised segment, Ralson competes with players such as Metro Tyres Limited, Poddar Tyres Limited, Hartex Rubber Private Limited and Govind Rubber Limited.

Well diversified customer portfolio with revenues mainly derived from replacement market – The company has a diversified customer base, with its top five customers accounting for 16-18% of its overall revenues. This is primarily because of its strong presence in the replacement market, which drove approximately 62% of its FY2021 revenues.

Increased focus on exports and foray into premium segment to drive growth – With muted growth prospects in the bicycle tyre segment, the company is now enhancing its focus on the automobile tyre and premium bicycle tyre segments, while expanding its presence in international markets. To support its plans, Ralson had invested in capacity expansion in the automobile tyres and premium bicycle tyres segment during FY2020-FY2021.

Restrictions on import of tyre and Government's focus on 'Make in India' to aid business prospects for domestic manufacturers like Ralson – The imports of cycle tyres (although a small share of the total domestic demand) had been on an increasing trend before the import restrictions came into place, because of increasing demand for premium cycles whose tyres were mostly imported. Given Ralson's capability to manufacture premium cycle tyres, it has benefitted from the restrictions on imports enforced by the Government.

Credit challenges

High concentration in bicycle tyre segment with limited presence in auto tyres – Ralson, at present, derives 75-80% of its revenues from the bicycle tyre segment, while automobile tyre sales are mostly limited to the replacement market. In the

¹ Source: CMIE based on revenue market share

latter, Ralson plans to increase its presence in the OEM segment. However, it faces intense competition from large tyre manufactures, such as MRF Limited, Apollo Tyres Limited and CEAT Limited. Furthermore, the company does not have technical collaborations with other companies, which could have potentially helped it in penetrating the OEM segment as well as in expanding its reach across overseas markets. Nevertheless, the company's plans to enter the T&B radial tyre market via its subsidiary, RTL. This is expected to diversify its revenue stream as well as improve its scale of operations over the medium term.

Intense competition from several organised and unorganised players – Competition from the unorganised segment is high, both in bicycle as well as auto tyre segments, especially in aftermarket supplies. The presence of unorganised players, in addition to several large organised tyre manufacturers, limits the company's pricing power and flexibility.

Operating margins superior to peers, but remain vulnerable to fluctuation in raw material prices – Ralson's margins have witnessed a significant volatility over the years owing to fluctuations in the prices of its key raw materials, such as natural and synthetic rubber and carbon black, which collectively account for 62-64% of its total raw material consumption. Nevertheless, Ralson's profitability metrics remain superior than its peers, a reflection of its strong market position, well-established brand and large scale of operations.

Debt-funded capex to result in moderation in credit metrics over the near-term – Ralson has a comfortable financial risk profile, characterised by a healthy capital structure (i.e., TD/TNW of 0.2 time) and coverage indicators (i.e., TD/OPBDIT and interest coverage of 1.1 and 17.0 times, respectively, in FY2021). The company is in the midst of executing its capex plans of ~Rs. 600 crore (over FY2022-FY2023) for setting up a T&B tyre plant via its subsidiary, RTL. The project is expected to be funded by a debt-to-equity ratio of 1.87:1. The ongoing capex is likely to lead to moderation in the company's credit metrics over the near-term, and RTL's ability to achieve timely completion of the project and ramp up its scale of operations thereafter remains a key monitorable. Nevertheless, the company's healthy cash flow generation (from current operations) is likely to remain sufficient to meet the debt repayments in a timely manner.

Liquidity position: Adequate

Ralson's liquidity profile is expected to remain adequate over the near-term, despite the ongoing capex, as reflected by its healthy cash flow generation of Rs. 90-110 crore p.a., buffer in working capital limits (average buffer of Rs. 27 crore against the sanctioned limit of Rs. 75.5 crore during the 7-month period ending in October 2021), and undrawn term loans of ~Rs. 295 crore as of January 2022. Against this, the company has long-term debt repayments of Rs. 18-19 crore (including buyer's credit) in FY2023, project capex plans of Rs. 300-320 crore during the next 12 months in RTL, and estimated maintenance capex of Rs. 20-30 crore p.a., which are expected to be primarily met from internal accruals and the undrawn term loans.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of:

- healthy diversification of revenues and/or improved market position, especially in the auto tyre segment
- significant improvement in revenue and profitability indicators with core RoCE above 15% and/or Total Debt/OPBDITA below 1.5 times on a sustained basis, while maintaining comfortable credit metrics.

Negative factors – The ratings may be downgraded in case of:

- significant deterioration in the company's profitability indicators and liquidity profile
- delay in setting up the T&B tyre plant, leading to material time and cost overruns
- significant deterioration in the credit metrics with DSCR below 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity. As on March 31, 2021, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

Incorporated in 1974, Ralson (India) Limited was founded by Mr. Om Prakash Pahwa. At present, it is led by Mr. Sanjeev Pahwa (son of Mr. Om Prakash Pahwa), who serves as the managing director and chairman of the board of directors. The company started its operations from Ludhiana, Punjab, by manufacturing bicycle tyres and tubes. Over the years, the company has diversified into the automobile tyre segment, primarily for two-wheelers. At present, the company's product range consists of cycle tyres and tubes, auto tyres and tubes, hubs and accessories, which are sold under the two brands, 'Ralson' and 'Ralco'. Ralson has three manufacturing units in Ludhiana, with a combined annual production capacity of 48.3 million bicycle tyres, 55.5 million bicycle tubes, 2.0 million automotive tyres and 2.6 million automotive tubes.

Ralson set up a 91.8% subsidiary, Ralson Tyres Limited (RTL), in October 2019, for entering the T&B tyre market. RTL's manufacturing unit is coming up in Madhya Pradesh with a proposed capacity of 8,52,000 tyres per annum. The subsidiary is expected to commence operations from March 2023.

Key financial indicators (audited)

Ralson Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	795.7	924.8
PAT (Rs. crore)	22.4	50.6
OPBDIT/OI (%)	9.8%	12.4%
PAT/OI (%)	2.8%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	1.2	1.1
Interest Coverage (times)	11.3	17.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA research

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 Nov 12, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	Dec 28, 2020	Nov 27, 2020	Aug 26, 2019	-
1	Cash Credit	Long-term	66.24	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2	Fund Based Limits	Long-term and short term	9.26	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-
3	Fund/Non Fund-based Limits	Short-term	3.09	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-	-
4	Fund Based Limits	Short-term	15.00	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-	-
5	Term Loans	Long-term	37.41	30.72	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
6	Non Fund-Based Facilities	Short-term	24.00	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-	-
7	Issuer Rating	Long-term	-	-	-	[ICRA]A+ (Stable); Withdrawn	[ICRA]A+ (Stable); Placed on Notice of Withdrawal	[ICRA]A+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Fund Based Limits	Simple
Fund/Non Fund-based Limits	Simple
Fund Based Limits	Simple
Term Loans	Simple
Non Fund-Based Facilities	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 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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	66.24	[ICRA]A+ (Stable)
NA	Fund Based Limits	NA	NA	NA	9.26	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Fund/Non Fund-based Limits	NA	NA	NA	3.09	[ICRA]A1
NA	Fund Based Limits	NA	NA	NA	15.00	[ICRA]A1
NA	Term Loans	FY2019	NA	FY2024	37.41	[ICRA]A+ (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	24.00	[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ralson Ownership	Consolidation Approach
Ralson (India) Limited	Rated entity	Full Consolidation
Ralson Tyres Limited	91.84%	Full consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (Ralson) and its subsidiary while assigning the ratings.

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