

March 31, 2022

Remsons Industries 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 Working Capital Facilities	26.00	24.00	[ICRA]BBB-(Stable); Reaffirmed
Long-term Fund-based Working Capital Demand Loan (WCDL)		2.30	[ICRA]BBB- (Stable); Assigned
Long-term Fund-based Overdraft		8.00	[ICRA]BBB- (Stable); Assigned
Long Term- Term Loans	13.30	10.02	[ICRA]BBB- (Stable); Reaffirmed
Short-term Non-fund-based limits	0.70	2.00	[ICRA]A3; Reaffirmed/Assigned
Total	40.00	46.32	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating of Remsons Industries Limited (Remsons) continues to take into account the long standing experience of its promoters in the auto ancillary industry and its established client base of leading domestic and international automobile OEMs. Further, the ratings note the healthy revenue share from the export and replacement markets, which is likely to sustain in the current fiscal as well.

ICRA also notes the Group's above-average financial risk profile, characterised by adequate liquidity and above-average debt coverage indicators, as well as sustained improvement in its scale of operations with its consolidated operating revenues growing at ~38.5% YoY to Rs. 206.9 crore in 9M FY2022 from Rs. 149.4 crore in 9M FY2021. ICRA also considers the completion of the capex at Remsons' Chakan plant in Pune (Maharashtra) and prepayment of high cost debt in the current fiscal by monetizing its non-core assets. This is likely to improve its capital structure and coverage indicators FY2022 over last fiscal.

The ratings, however, are constrained by the moderate operating profitability of Remsons, given its limited bargaining power with its key customer base of established OEMs and the susceptibility of its margins to volatility in raw material prices, which has been on elevated levels in the current fiscal. Though the company seeks a proportionate rise from its customers as and when raw material prices move beyond a threshold, the same may come with a lag and may not cover the full rise. Hence, 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 exposure of Remsons' operations to the inherent cyclicity in the automobile industry, the intense competition from domestic and international players, as well as high client concentration risk.

The Stable outlook, reflects ICRA's opinion that the company will continue to maintain in credit profile, in the absence of any planned debt-funded capex, adequate liquidity levels and established track record with 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 four decades in the auto ancillary business. The company acquired the UK entity, Magal Cables Limited (MCL), in H2 FY2021, which operates in the similar line of business, manufacturing components like cable assemblies and pedal box systems. The acquisition is expected to strengthen RIL's presence in the export market and aid 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 Ltd., Ashok Leyland Ltd., Force Motors Limited etc, Mahindra & Mahindra, Maruti Suzuki and Tata Motors Ltd. The company has enjoyed relationships of over 15–30 years with its clients. MCL caters to globally reputed players such as Ford Motors Ltd., BMW AG, Daimler AG and Renault Nissan. The established relationships with its customers and limited churning in its customer base have ensured significant repeat business.

Above-average financial risk profile – Remsons revenue has seen a sustained growth, owing to robust uptick in the domestic market, which constitutes ~70% of revenues, which posted a growth of 30.2% YoY from Rs. 108.0 crore in FY2020 to Rs. 140.6 crore in FY2021 at a standalone level. The 9M FY2022 revenue at a consolidated level stood at Rs. 206.9 crore, representing an annualised growth of ~22%, again driven by domestic demand which has posted a growth of ~11% in the current fiscal. The growth of the exports and replacement markets (~30% of revenues at standalone level) have been range-bound at ~7-10% in the last two financial years. Owing to the significant disruptions caused by the nationwide lockdown, as well as debt-funded acquisition of MCL in FY2021, the capital structure on a standalone level marked by gearing ratio deteriorated to 1.6x as on March 31, 2021 over 1.2x as on March 31, 2020. The return indicators also moderated in FY2021 weighed down by under absorption of business expenses. The impact of the second wave of Covid-19 resulted in the moderation of revenues and margins in Q1 FY2022, when the company posted losses at net level. However, on a consolidated basis, the operating margins improved to 5.8% for 9M FY2022 over 4.5% in FY2021 on the back of increase in scale of operations.

The company's capital structure also posted an improvement as it prepaid high cost term loans to the tune of ~Rs. 12 crore through a mix of asset sales and internal accruals. The significant deleveraging would improve the capital structure and debt coverage metrics in FY2022.

Credit challenges

Profit margins remain susceptible to volatility in raw material prices - The key raw materials for the company are steel, plastic, PVC, zinc and other consumables. In addition, labour cost constitutes 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 limited bargaining power and intense competitive landscape, the profitability margins have continued to be under stress over the last two fiscals. Moreover, the rise in key input materials lately, will also keep the margin under pressure in the near term. 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 at present in India, thus limiting the company's bargaining power of to some extent.

Considerable Client Concentration - The company's dependence on its top customers has seen a steady increase from about ~50% of the overall standalone revenues in FY2018 to about ~85% in FY2021. The revenue share from its top five clients stood at ~80% in 9M FY2022. The company's clientele of reputed OEMs in both domestic and export markets and its established relationships with them for over a decade, ensuring repeat business, provide comfort.

Liquidity position: Adequate

The liquidity position stood **adequate**, supported by the expected adequate cash flow generation against the annual debt repayment obligations in FY2022. The company also had adequate liquidity cushion in terms of undrawn working capital limit

of ~Rs. 5.5 crore as of December 31, 2021, and cash and liquid investment of ~Rs. 2.4 crore (consolidated) as on September 30, 2021. Comfort can also be drawn from promoter loan as and when needed, which as of 9MFY2022 stood at Rs. 7.5 crore.

Rating sensitivities

Positive factors

- Sustained improvement in scale of operations
- Improvement in profitability and working capital cycle

Negative factors

- Substantial decline in scale of operations or profitability, leading to deterioration in key credit metrics marked by interest coverage ratio dropping below 2.8x on a sustained basis
- Large debt-funded capex or stretch in receivables deteriorating the liquidity profile

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers Consolidation and rating approach
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has taken a consolidated view of Remsons Industries Limited and its subsidiaries, whose details are listed in Annexure-2.

About the company

Remsons Industries Limited was incorporated in 1971 by the 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 Mr. Harlalka. Subsequently, RCPL was converted into a public limited company in October 1986 and 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 automobile industry drives ~97% of the company's sales and non-automotive sectors account for the rest. The company also 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 six manufacturing plants across Gurgaon (Haryana), Daman (four plants in Daman and Diu) and Pardi (Gujarat). The design and validation facilities are in Gurgaon and Mumbai. The Gurgaon and Daman facilities are ISO/TS 16949: 2009 and ISO 9001: 2008 certified. The Daman unit is additionally certified as per ISO 14001: 2004 standards. In September 2020, the company acquired a UK-based company, Magal Cables Limited, over whom it assumed control from October 15, 2020.

Key financial indicators (audited)-Standalone

Remsons Industries Limited	FY2020	FY2021
Operating Income (Rs. crore)	159.2	195.5
PAT (Rs. crore)	5.3	6.7
OPBDIT/OI (%)	7.2%	5.1%
PAT/OI (%)	3.4%	3.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	3.4
Total Debt [^] /OPBDIT (times)	2.6	4.9
Interest Coverage (times)	4.5	3.2

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; [^]Includes Unsecured Loans; All ratios as per ICRA calculations

Key financial indicators (audited)- Consolidated

Remsons Industries Limited	FY2020*	FY2021*
Operating Income (Rs. crore)	-	226.2
PAT (Rs. crore)	-	4.5
OPBDIT/OI (%)	-	4.5%
PAT/OI (%)	-	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	-	4.6
Total Debt [^] /OPBDIT (times)	-	6.4
Interest Coverage (times)	-	2.9

Source: Company, ICRA Research; [^]Includes Unsecured Loans; *Consolidated Financials is applicable from Q3 FY2021 hence Not available for FY2020. All ratios as per ICRA calculations;

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 on March 15, 2022 (Rs. crore)	Date & Rating in	FY2021	FY2021	FY2021	FY2021	FY2019	
					March 31, 2022	Feb 18, 2021	Feb 04, 2021	Sept 17, 2020	Apr 07, 2020	Dec 06, 2018	Aug 01, 2018
1	Cash Credit	Long Term	24.00	-	[ICRA]BBB- (Stable);	[ICRA]BBB- (Stable);	[ICRA]BBB- (Stable);	[ICRA]BBB- &;	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
2	Term Loan	Long Term	10.02	7.94	[ICRA]BBB- (Stable);	[ICRA]BBB- (Stable);	[ICRA]BBB- (Stable);	[ICRA]BBB- &;	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)
3	Non-Fund Based Limits	Short Term	2.00	-	[ICRA]A3;	[ICRA]A3;	[ICRA]A3;	[ICRA]A3 &;	[ICRA]A3	[ICRA]A3	[ICRA]A4+
4	Overdraft	Long Term	8.00	-	[ICRA]BBB- (Stable);						
5	WCDL	Long Term	2.30	-	[ICRA]BBB- (Stable);						

Source: Company; & rating placed on watch with developing implications;

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
WCDL	Simple
Overdraft	Simple
Letter of Credit	Very Simple
Bank Guarantee	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	24.00	[ICRA]BBB- (Stable);
NA	Term Loan	Mar-2016	-	Mar-2026	10.02	
NA	WCDL	-	-	-	2.30	[ICRA]BBB- (Stable);
NA	Overdraft	-	-	-	8.00	
NA	Letter of Credit	-	-	-	1.30	[ICRA]A3;
NA	Bank Guarantee	-	-	-	0.70	

Source: Remsons Industries Limited

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	RIL Ownership	Consolidation Approach
Remsons Holdings Limited (RHL)	100%	Full Consolidation
Woolford Properties Ltd (Step Down Subsidiary of RHL)	100%	Full Consolidation
Magal Automotive Ltd (Step Down Subsidiary of RHL)	100%	Full Consolidation

Source: Company data; **Note:** ICRA has taken a consolidated view of the parent (RIL) and subsidiary while assigning the ratings.

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