August 10, 2023

Rockman Industries Limited: Ratings reaffirmed; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	200.00	200.00	[ICRA]AA(Stable) reaffirmed; Outlook changed to 'Stable' from 'Negative'
Long-term Fund-based – Term Loan	293.00	214.50	[ICRA]AA(Stable) reaffirmed; Outlook changed to 'Stable' from 'Negative'
Short -term – Fund/ Non-fund Based Limits	50.00	50.00	[ICRA]A1+; reaffirmed
Short -term – Fund-based Limits	75.00	190.00	[ICRA]A1+; reaffirmed and assigned for enhanced limit
Short -term – Non-fund Based Limits	90.00	90.00	[ICRA]A1+; reaffirmed
Long Term/Short -term – Unallocated Limits	26.99	0.00	-
Total	**734.99**	**744.50**	
Commercial Paper Programme	**75.00**	**75.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the ratings of Rockman Industries Limited (RIL) factors in an expectation of improvement in return and credit metrics for the company, aided by a ramp up in its alloy wheel plants (especially the passenger vehicle, or PV, segment). As a part of its business expansion and diversification plans, RIL had set up two greenfield units (one each in Gujarat and Andhra Pradesh) at an investment of ~Rs. 880 crore (from FY2019 to FY2021), part of which was debt funded. Following a delayed ramp up in the new plants, driven by an industry slowdown amid the pandemic, the utilisation levels at RIL's various plants witnessed sequential improvement in utilisation levels over the last few quarters (PV alloy wheel plant reached EBITDA breakeven in Q1 FY2024). The company witnessed a significant improvement in orders in FY2023, supporting its cash flows and providing comfort regarding a continuation of improvement in utilisation levels/earnings, going forward.

The ratings for RIL continue to factor in its established business position as a leading supplier of aluminium die-cast components (including alloy wheels) and strong business linkage with its key customer and group company—Hero MotoCorp Limited (HMCL; rated [ICRA]AAA(Stable)/A1+). RIL is the leading supplier of alloy wheels and other aluminium die-cast engine components, such as crank cases, cylinder heads and flange panels to HMCL. In FY2023, HMCL accounted for ~40% of RIL's revenues (~63% if adjusted to change in revenue construct with HMCL), leading to customer and segment concentration risks. Nevertheless, the risk is mitigated to an extent by HMCL's position as a leading two-wheeler (2W) manufacturer and RIL's track record of a strong share of business with it. Further, ICRA notes that the customer concentration has been reducing over the years (from 80% in FY2019) aided by the company's diversification initiatives.

While RIL's margins were significantly impacted by inflationary pressures in FY2022, an easing in commodity prices and improvement in utilisation levels aided an improvement in profitability margins in FY2023 (~13% in FY2023 vis-à-vis ~8% in FY2022). The margins are expected to improve, going forward, given the healthy demand in the automotive segment and moderation in raw material prices.

While RIL continues to bear significant customer concentration risks owing to its dependency on HMCL for revenues, it has commenced supplies of 2W and PV alloy wheels to several new customers over the last few years as part of RIL's diversification strategies. It has also been awarded several new businesses for other casting-based components from established OEMs and several prominent e-2W manufacturers. Ramp up in these supplies over the medium term will help reduce customer-concentration risks and increase the share of revenues from the PV industry, thereby reducing RIL's exposure to the 2W industry.

Key rating drivers and their description

Credit strengths

Strong and well-established relationship with HMCL – RIL supplies aluminium die-casting components such as alloy wheels, cylinder heads, crank cases, and flange panels, among others, to HMCL, across its manufacturing facilities. The company set up a new plant in Gujarat to cater to HMCL's Gujarat plant (in FY2020), which helped strengthen its share of business with the OEM. Overall, it is estimated to have 45-50% share of business with HMCL, which is likely to increase, going forward, benefitting from the industry-wide trend of alloy wheel localisation.

Leading manufacturer of 2W alloy wheels in India – RIL is the largest domestic manufacturers of 2W alloy wheels in India, with an installed annual manufacturing capacity of ~15 million units. At present, it enjoys the majority share of business with HMCL, and is in the process of increasing its business with other 2W OEMs in India. The OEMs are increasingly opting for localising their alloy wheel procurement, given the increased competitiveness of domestic alloy wheel supplies against imports. Accordingly, companies such as RIL are likely to benefit from the improved order inflows.

Comfortable financial risk profile with healthy capital structure; financial flexibility supported by Group linkages – The company's financial risk profile is well supported by its large scale of operations and healthy cash accruals. Despite some moderation in credit metrics in recent years because of the sizeable debt-funded capex for the greenfield facilities and weak 2W industry performance, the credit metrics improved in FY2023 (total debt/OPBITDA at ~1.6 times[1] over 2.3 times in FY2022 and interest cover at 6.8 times[1] in FY2023 over 5.4 times in FY2022). Even as the company has capex plans towards expanding its PV alloy wheel capacity in FY2024, the credit metrics are expected to improve further over the medium term, aided by an improvement in earnings and scheduled repayment of term loans. Additionally, with strong inter-group linkages as part of the Hero Group, the company maintains healthy financial flexibility in accessing financial institutions and the debt market for any funding requirements.

Credit challenges

Customer and segment-concentration risks; diversification initiatives to mitigate the same – HMCL drove approximately ~64% of RIL's revenues in FY2023 (adjusted for the change in revenue construct). Nevertheless, the customer concentration has been reducing over the years (from 80% in FY2019) aided by the company's diversification initiatives. In addition, the customer concentration risk is mitigated to an extent by HMCL's strong market position in the domestic 2W market and the company's strategic importance as a key vendor of aluminium die-cast components to the OEM. Aided by a ramp up in supplies for various new businesses, the company's customer and segment concentration risks are expected to further reduce over the medium term.

Debt-funded greenfield expansions led to moderation in return indicators and credit metrics; gradual improvement in the same ongoing – RIL's profitability and earnings remained weaker over the period FY2020-FY2022, owing to weak demand in the two-wheeler industry, leading to sub-optimal utilisation of facilities. The company reported an improvement in performance in FY2023, aided by a gradual recovery in prospects of the two-wheeler industry and easing in commodity prices. Going forward, with confirmed orders-in-hand, trend towards import substitution for alloy wheels, as well as business wins from established 2W OEMs and electric 2-whellers (e-2W) manufacturers offer comfort regarding a continuation of ramp up

[1] *On the basis of provisional standalone financials*

of supplies from its various plants, and an improvement in earnings. The company's credit metrics and return indicators are likely to improve over the medium term as supplies from the new plants scale up.

Liquidity position: Adequate

RIL's liquidity position is adequate, supported by availability of unutilised working capital limits (average buffer of ~Rs. 118 crore over the past 12 months ended June 2023) and comfortable cash flows from operations. Additionally, it maintains healthy financial flexibility as part of the larger Hero Group. Against the available sources of cash, the company has debt repayments of ~Rs. 79 crore in FY2024 and an estimated capex requirement of Rs. 160 crore in FY2024, which are expected to be met from internal accruals, available lines of credit and additional term loans.

Rating sensitivities

Positive factors – A material diversification in segment mix with reduced dependence on the 2W segment would augur well for a positive rating movement over the medium term. RoCE and Total Debt/OPBDITA improving to 20% and below 1.0 time, respectively, on a sustained basis will be considered favourably for a rating upgrade.

Negative factors – ICRA could downgrade RIL's ratings in case of a material deterioration in its share of business with HMCL or a weaker than expected ramp up of sales from its new plants, resulting in weakening of credit metrics. Specific credit metrics that could trigger a downward rating include TD/OPBDITA remaining at elevated levels above 2.0 times on a sustained basis. Sizeable incremental investments in the non-automotive business leading to deterioration in the credit metrics could also exert downward pressure on ratings.

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	For arriving at the ratings, ICRA has considered the consolidated financials of RIL. As on March 31, 2023, the company had a subsidiary and an associate, as enlisted in Annexure-II.

About the company

Established in 1961, Rockman Industries Limited is one of the leading auto component manufacturing entities of the Hero Group with presence in aluminium die-cast components. Rockman is the major supplier of key engine components and alloy wheels to Hero MotoCorp Limited (HMCL; rated [ICRA]AAA (Stable)/[ICRA]A1+), a key customer[2] for the company. The company caters to around 45-50% of HMCL's alloy wheel requirement and is one of the leading suppliers of other aluminium die-cast components, such as crank cases, crank case covers and cylinder heads.

Over the past decade, the company has implemented a strategy to diversify its exposure and has made both organic and inorganic investments to secure business outside the 2W industry. Some of its key inorganic investments include Sargam Die Castings (in 2014) and Moldex Composites Private Limited (2018). Sargam Die Castings, involved in aluminium die-casting for customers such as Ford and Bosch, was renamed as RIL Industries Chennai Private Limited, following its acquisition. It was subsequently amalgamated with RIL with effect from April 1, 2018. The other acquired entity, Moldex, later rechristened as

[2] *In FY2023, RILchanged its business contract with HMCL to a 'job-work' model, resulting in reduced contribution from the OEM on an absolute basis (down to ~40% of revenues in FY2023 from ~70% in FY2022). RIL continues to procure raw materials for the other OEMs, which gets included in the COGS and revenue numbers.*

RIL Advanced Composites Private Limited [rated [ICRA]BBB(Stable)], manufactures carbon composites for super luxury and racing vehicles.

RIL has invested in non-automotive businesses with focus on electronics and semiconductor testing facilities. These investments were held by its 45% stake in its co-group company, Hero Electronix Private Limited (HEPL). The company is currently not listed, and its promoters (Hero Group) own 100% stake.

RIL's manufacturing facilities at Ludhiana (Punjab), Bawal (Haryana), Haridwar (Uttaranchal) and Chennai produce a range of aluminium die-cast components using high-pressure, low-pressure and gravity die-casting technologies. Additionally, it has a dedicated auto-chain manufacturing plant at Mangli (Punjab). The company also set up greenfield facilities in Andhra Pradesh (for manufacturing alloy wheels for PV and 2W OEMs) and Gujarat at a cumulative investment of more than Rs. 880 crore over the period FY2019 to FY2021.

Key financial indicators (audited)

RIL Consolidated	FY2021	FY2022	FY2023*
Operating income	2,358.4	3,066.4	2,254
PAT	18.3	41.7	-
OPBDIT/OI	8.7%	7.7%	-
PAT/OI	0.8%	1.4%	-
Total outside liabilities/Tangible net worth (times)	1.0	1.0	-
Total debt/OPBDIT (times)	2.9	2.3	-
Interest coverage (times)	4.5	5.4	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Aug 10, 2023	Oct 21, 2022	Feb 25, 2022	Feb 25, 2021	Apr 22, 2020
1	Cash Credit	Long term	200.00	--	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Term Loans	Long term	214.50	214.50	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Fund/ Non Fund-based Limits	Short term	50.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based Limits	Short term	190.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	Non Fund Based Limits	Short term	90.00	--	[ICRA]A1+	[ICRA]A1+	-	-	-

6	**Unallocated Limits**	Long term and short term	0.00	--	**-**	**[ICRA]AA (Negative)/ [ICRA]A1+**	**[ICRA]AA (Negative)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**
7	**Commercial Paper Programme**	Short term	75.00	--	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short -term – Fund/ Non-Fund based Limits	Simple
Short -term – Fund-based Limits	Simple
Short -term – Non-Fund-based Limits	Very Simple
Short -term – Commercial Paper Programme	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 Loan-I	Aug 2019	NA	FY2026	52.00	[ICRA]AA(Stable)
NA	Term Loan-II	Jan 2019	NA	FY2026	162.50	[ICRA]AA(Stable)
NA	Cash Credit	NA	NA	NA	200.00	[ICRA]AA(Stable)
NA	Fund Based Limits	NA	NA	NA	190.00	[ICRA]A1+
NA	Fund/ Non Fund based Limits	NA	NA	NA	50.00	[ICRA]A1+
NA	Non Fund-based Limits	NA	NA	NA	90.00	[ICRA]A1+
NA	Commercial Paper Programme*	Yet to be placed			75.00	[ICRA]A1+

*Source: Company; *Not issued by the company currently*

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Rockman Ownership	Consolidation Approach
Rockman Advanced Composites Private Limited	51.01%	Full Consolidation
Hero Electronix Private Limited	45.16%	Equity Method

Source: Company

Note: ICRA has used Rockman's consolidated financials while arriving at the ratings.

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