

July 05, 2024

Classic Industries and Exports Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/ Short term- Fund based/ Non-Fund based	30.00	30.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Total	30.00	30.00	

*Instrument details are provided in Annexure-I

Rationale

To determine the ratings, ICRA has consolidated the financials of Classic Industries and Exports Ltd. (CIEL) and its two wholly owned subsidiaries, Premedium Pharmaceuticals Private Limited and CIAEL Singapore Pte. Ltd.

The reaffirmed ratings reflect ICRA's opinion that CIEL will maintain its comfortable credit metrics supported by healthy earnings, minimal debt obligations, modest capex plans and strong liquidity. CIEL is expected to record a mid-to-high single-digit revenue growth in FY2025, supported by healthy demand in the rubber mixing and TBM divisions. The ratings factor in CIEL's strong operational synergies and business position as a captive supplier of tyre moulds, tubes, rubber compounds and tyre building machines (TBMs) to Apollo Tyres Limited (ATL), the second largest tyre manufacturer in India. The company has also been expanding its distribution network under its in-house brand, Classic, to diversify its customer base and leverage its capabilities.

The ratings are, however, constrained by the company's exposure to volatility in raw material prices. Although the raw material prices reduced in FY2024, the company's margins improved marginally. While the recent increase in input costs is expected to impact margins in FY2025, improvement in revenues from the margin-lucrative moulds and TBMs division would support the company's margins to an extent. In addition, the company has a track record of investing in, or extending loans to, Group companies. Any new investments or significant increase in support extended to Group entities, impacting its financial risk profile, remains a key monitorable. The ratings also factor in the company's high revenue dependence on ATL. However, ATL's strong market position in the Indian tyre industry mitigates this risk to a certain extent.

The Stable outlook on the ratings considers CIEL's consistent share of business with ATL leading to revenue visibility, supported by the robust demand outlook for the tyre segment in the near term due to the gradual adoption of tubeless tyres by trucks and buses, the key end-user segments of ATL and CIEL.

Key rating drivers and their description

Credit strengths

Steady business from promoter Ggroup's flagship company provides revenue visibility; and being part of Apollo Tyres Group provides strong financial flexibility – CIEL enjoys strong operational synergies with the Group's flagship company, ATL, as a captive supplier of tyre moulds and TBMs, as well as a manufacturer of rubber compounds, tubes and bladders. The company caters to the majority of ATL's tube requirements from its Pune plant and supplies branded tubes in the aftermarket. The tube segment witnessed modest revenue growth in FY2024, contributing 75% of FY2024 revenues. The Kochi plant (rubber mixing segment) witnessed a healthy revenue growth of 19% driven by the addition of new customers, while the Chennai plant (mould and TBM) witnessed a revenue decline, given the reduced demand from ATL, resulting in modest 0.5% growth in the company's overall standalone revenues. Going forward, ICRA expects steady revenue growth in the medium term supported by a consistent share of business from ATL, improved demand from non-ATL customers in the Kochi plant and the anticipated

revenue recovery for the Chennai plant. ICRA expects demand in the tubes segment to sustain in the medium term despite the gradual adoption of tubeless tyres in the trucks and buses segment, which is the company's key end-user segment.

Comfortable financial profile with strong debt protection metrics – The company remained debt-free on a standalone basis in FY2024 and had some working capital loans in the subsidiaries. Further, CIEL raised Rs. 30.0 crore of equity in FY2024 from its promoters and is expected to be used for future investment purposes. With the improvement in margins, the consolidated credit metrics remain strong with TD/OPBITDA and interest cover at 0.03 times and 24.7 times, respectively, in FY2024. Also, the company has a healthy liquidity profile owing to sizeable cash balances and liquid investment in the form of ATL shares, providing good financial flexibility. In the absence of any major capex plans or incremental support requirements for the Group entities, ICRA expects the company's coverage metrics to remain comfortable. However, ICRA notes that the company is exploring new investment opportunities and will monitor the developments.

Credit challenges

Vulnerability to fluctuations in raw material prices, pressure on margins continues – The company uses synthetic rubber and carbon black as key raw materials, which are crude derivatives. In FY2023, the company's margins declined to 5.1% from 8.6% in FY2022 as CIEL could not fully pass on increased raw material costs to ATL. This was primarily due to the arm's length pricing between ATL and CIEL and CIEL must supply at competitive rates. Products supplied to ATL are priced at market rates although CIEL has the comfort of assured business. In FY2024, while the crude and synthetic rubber prices corrected, the company witnessed only a marginal improvement in OPM to 5.2%. Increases in raw material prices since Q4 FY2024 are expected to impact the company's margins in FY2025. However, the margins are expected to be supported by a higher share of revenues from the margin-lucrative moulds and TBMs division.

High customer concentration risk with ATL being single-largest customer; high share of business with ATL and initiatives to increase non-ATL business would mitigate risk to an extent – At present, CIEL depends on ATL and its international subsidiaries for almost 75-80% of its revenues. However, as a captive unit of ATL, it holds a strong share of business, particularly in the tubes and TBMs segments. The customer concentration risk is largely mitigated by ATL's position as the second-largest player in the domestic tyres market, as well as by the common promoters shared between ATL and CIEL. Further, the company supplies tubes in the aftermarket and rubber compounds to non-ATL customers, providing diversification to some extent. In FY2024, non-ATL revenues improved owing to the increase of rubber mixing business from non-ATL clients. As a result, the revenue share from non-group customers increased to 24% in FY2024 from 21% in FY2023. The company is taking initiatives to expand its distribution network for tubes across India as well as in export markets such as Europe and West Asia to support the growth of its non-ATL business under the Classic brand.

Support to group companies may constrain financial position – CIEL has a track record of providing support to Group companies in the form of corporate guarantees, inter-corporate deposits, loans and advances. While a sizeable portion of its net worth is deployed in ATL shares, any large outflows to its promoter group and investee companies, in the form of investments, loans, advances or corporate guarantees, might constrain its financial position and would remain a key monitorable.

Liquidity position: Strong

CIEL's liquidity remains strong supported by cash and bank balances of Rs. 69.2 crore and unutilised sanctioned working limits of Rs. 30.0 crore as on March 31, 2024. The company does not have any major capex plans in the near term nor any scheduled debt repayments. Additionally, the company has around Rs. 872.1 crore of liquid investments in the form of ATL's equity shares, which lends significant financial flexibility. Further, the company is also exploring new investment opportunities, however, the details of the same are yet to emerge.

Rating sensitivities

Positive factors – The company’s ability to scale up its business and diversify its business profile by securing new and sustained business from customers other than ATL while improving its profitability indicators and maintaining comfortable credit metrics will be considered favourably for a rating upgrade.

Negative factors – Pressure on ratings could arise in case of a weakening of the financial risk profile due to any large debt addition or pressure on profitability margins, resulting in TD/OPBITDA over 2.0 times on a sustained basis. Also, any considerable support to the investee companies and promoter Group companies in the form of investments, loans, advances or corporate guarantees, might constrain its financial position and will remain a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CIEL. CIEL’s two subsidiaries are consolidated, and their details are enlisted in Annexure–II.

About the company

CIEL is involved in the manufacturing and marketing of automotive butyl tubes, mixing rubber compounds, and manufacturing moulds and TBMs. As part of the Apollo Tyres Group, CIEL was created to undertake its low-value additions to ensure that ATL’s focus remains on high-end activities. The company has three manufacturing units, one each at Pune (tube and bladder plant), Kochi (mixing plant) and Chennai (mould and tyre building machines plant).

CIEL is a part of the Apollo Group, whose flagship company is Apollo Tyres Limited, a leading Indian tyre manufacturer. Headquartered in Gurgaon, Haryana, the company was registered in 1976. Over the last four decades, ATL has been working on a portfolio of products including a wide range of tyres, alloy wheels and retreading materials. At present, the company produces the entire range of automotive tyres for ultra and high-speed passenger cars, trucks, and buses, as well as farm, off-the-road, industrial and speciality applications like mining, retread tyres and retreading material.

Key financial indicators (audited)

CIEL Consolidated	FY2023	FY2024
Operating income	698.1	699.5
PAT	19.9	28.7
OPBDIT/OI	5.0%	5.5%
PAT/OI	2.9%	4.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.4	0.0
Interest coverage (times)	34.0	24.7

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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)	Date & rating in FY2025	Date & rating in FY2024
		Jul 05, 2024	Jul 28, 2023			Jul 28, 2022	Jun 28, 2021
1	Fund Based/Non-Fund based	Long term and short term	30.00	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1
2	Unallocated	Long term	-	-	-	[ICRA]A(Stable)	[ICRA]A(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/ Short term - Fund based/Non Fund based	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	Long term/ Short term - Fund based/ Non-Fund based	April 2020	9.90%	NA	30.00	[ICRA]A(Stable)/ [ICRA]A1

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	CIEL'S Ownership	Consolidation Approach
Premedium Pharmaceuticals Private Limited	100.00%	Full consolidation
CIAEL Singapore Pte. Ltd	100.00%	Full consolidation

Source: Company

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Branches



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