

April 27, 2017

Vibracoustic India Private Limited (Erstwhile TrelleborgVibracoustic (India) Private Limited)

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based – Working Capital Facilities	3.60	[ICRA]A+(Stable)/A1+ reaffirmed
Fund-based – Short Term	5.00	[ICRA]A1+ reaffirmed
Unallocated	5.90	[ICRA]A+(Stable)/A1+ reaffirmed
Total	14.50	

*Instrument details are provided in Annexure 1

Rating Action

ICRA has re-affirmed the long-term rating at [ICRA] A+ (pronounced ICRA A plus)¹ and the short-term rating at [ICRA] A1+ (pronounced ICRA A One plus) for the Rs. 14.50 Crore Line of Credit of Vibracoustic India Private Limited (VIL or “the company”)†. The outlook on the long term rating is “Stable”.

Rationale

The re-affirmation of rating takes into account VIL’s stable credit metrics even as company’s turnover as well as operating margins have been on a declining trend over the past couple of years on account of lower off-take by some of its key customers in the international markets. Despite contraction in turnover, the company’s credit metrics remain comfortable supported by minimal debt and substantial cash balances. During the previous two fiscals, the company’s sales to select overseas customers declined on account of certain models of OEMs approaching end of their lifecycle. In addition, with most of the export revenues being generated from European customers, the depreciation of Euro during FY2016 also impacted both turnover as well as operating margins as export business doesn’t incorporate the pass through clause for fluctuation in foreign exchange. The trend continued in FY2017 as the company witnessed a significant drop in its export sales (down 24.5%), which was partially compensated by healthy growth in the domestic market.

In the domestic market, VIL has achieved significant growth in the PV segment, catering anti noise, vibration and harshness (anti-NVH) products, such as air springs, chassis mounts, engine mounts, etc., to both OEMS (Tata Motors Limited, Mahindra & Mahindra, Fiat India Automobiles Limited, etc.) and Tier 1 suppliers (Tenneco, Vibracoustic Noida Private Limited, Gabriel India Limited, etc.). In addition, the company is also focusing on the CV segment and its product portfolio is supported by increased emphasis on driver comfort and reduction of the total cost of operation after the entry of foreign players like Daimler and Volvo in the CV segment. The share of total domestic sales to overall revenues has increased from 22% in FY2014 to 53% in 10m FY2017. ICRA expects that the domestic PV and CV sales growth will support the revenue growth in the medium term.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The export sales have been on the decline on account of a combination of existing export models near the end of the product lifecycle, limited new export orders and decline in the Euro against the Rupee. Accordingly, the share of export sales to total sales has declined from 78% in FY2014 to 47% in 10m FY2017. The company had however hedged around 50% of its export revenues and was able to moderate the drop in the net profit margin due to gains from currency hedging. While export business is likely to remain subdued in the near-term, ICRA expects that sales to pick-up from FY 2019 onwards on back of new export orders which are expected to commercialize in CY 2018.

VIL continues to have very strong financial profile, supported by minimal debt, low capital expenditure, healthy cash balances and strong debt coverage metrics. The company has no long term debt and has repaid one of its fund based working capital facilities and its non-fund based short term facilities in FY2017.

The rating reaffirmation also takes into consideration the company's favourable parentage, being a wholly owned subsidiary of Vibracoustic GmbH, a global leader in anti-vibration components and the resultant benefits in the form of access to global clientele and technical know-how of the parent. Vibracoustic GmbH is a wholly owned subsidiary of Freudenberg SE (rated A3 by Moody's in Jul 2016), a multi-national company operating in various business verticals including seals and vibration control technology.

The company's ability to leverage its strong parentage to boost its export revenues and its success in penetrating the domestic CV market would be the key rating sensitivities.

Key Rating Drivers

Credit Strengths:

- Benefits due to parentage of Vibracoustic GmbH, a global leader in anti-vibration components used in automobiles, in terms of access to global clientele as well as technical know-how
- Healthy financial risk profile characterised by low gearing, strong debt coverage indicators and sizeable cash and liquid investments
- Incremental business gained from customers in domestic PV market and ramp up in the domestic CV market.

Credit Weaknesses:

- Vulnerable to foreign exchange fluctuations on account of significant revenues being derived from export markets; however, efforts by company to hedge 50% export sales through forward contracts as well as increasing share of domestic business mitigates this risk to some extent
- Expected moderation in profitability with declining export sales due to limited additional export business
- Significant dependence on its parent company Vibracoustic GmbH for export revenues; however, company's efforts to acquire business in the domestic market would reduce dependence on overseas customers for revenues and reduce this risk going forward.

Key Rating Sensitivities:

- Acceptance of company's superior but expensive anti-NVH products in the domestic CV segment
- Deterioration in profitability indicators on account of further decline in the export business

Description of Key Rating Drivers:

VIL's total sales declined from Rs. 222.7 crore in FY2015 to Rs. 190.4 crore in FY2016. In 10m FY2017 the total sales were at Rs. 147.9 crore. The contraction in revenues is on account of the decline in export sales, which was partially compensated by growth in domestic sales. The total domestic sales have increased from Rs. 51.60 crore in FY2014 to Rs. 79.00 crore in 10m FY2017, whereas the export sales have declined from Rs. 183.1 crore in FY2014 to Rs. 68.9 crore in 10m FY2017. The decline in export sales and lower capacity utilization had a negative impact on the profit margins. The debt metrics and the financial profile of the company remain strong and are supported by low capital expenditure, minimal debt and healthy cash balances.

Analytical approach: Not Applicable

Links to applicable criteria:

Corporate Credit Ratings: A Note on Methodology

Rating Methodology for Auto Component Manufacturers

About the company:

Vibracoustic India Private Limited (VIL) was incorporated as Sigma Vibracoustics (India) Private Limited (SVIL), joint venture (JV) between the Sigma Group (equity holding 50.0%) and Vibracoustics GmbH (Germany) (equity holding 50.0%) in 2007. In November 28, 2013, the foreign partner bought out the 50% stake held by the Indian promoters, making the company a 100% subsidiary of TrelleborgVibracoustic (TBVC, 50:50 JV between Trelleborg AVS and Vibracoustic GmbH). On May 02, 2014, SVIL's name was changed to TrelleborgVibracoustic (India) Private Limited. Effective January 2016, Trelleborg AVS sold its stake in TBVC to Vibracoustic GmbH's parent company Freudenberg SE.

VIL is engaged in the manufacture of anti-vibration automotive components such as engine mounts, damper mounts and suspension bushes. The company supplies these parts both as a tier-I supplier as well as a tier-II supplier with the final application in passenger vehicles and commercial vehicles. VIL's production facilities are located at Mohali (Punjab) with an infrastructure to manufacture the above rubber-to-metal bonded parts through injection moulding process.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years:
Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				Apr 2017	Feb 2016	Jan 2015	Jan 2014
1	Fund Based Working Capital Facilities	Long Term/ Short Term	3.60	[ICRA]A+ (Stable)/A1+	ICRA]A+ (Stable)/ A1+	ICRA]A+ (Positive)/ A1+	ICRA]A+ (Stable)/ A1+
2	Short-Term Fund Based Limits	Short Term	5.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	Long Term/ Short Term	5.90	[ICRA]A1+	ICRA]A+ (Stable)/ A1+	ICRA]A+ (Positive)/ A1+	ICRA]A+ (Stable)/ A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Interest Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Fund Based Working Capital Facilities	-	9.20%	-	3.60	[ICRA]A+(Stable)/A1+
Short-Term Fund Based Limits	-	9.30%	-	5.00	[ICRA]A1+
Unallocated	-	-	-	5.90	[ICRA]A+(Stable)/A1+

Source: Vibracoustic India Private Limited



Name and Contact Details of the Rating Analyst(s):

Analyst Contacts

Subrata Ray

+91 22 2433 1086
subrata@icraindia.com

Shamsher Dewan

+91-124-4545 328
shamsherd@icraindia.com

Sreejan Dutta

+91-124- 4545 396
sreejan.dutta@icraindia.com

Sruthi Thomas

+91-124-4545822
sruthi.thomas@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500