

July 07, 2017

Sundaram Industries Private Limited

Summary of rated instruments

Instruments*	Rated amount (Rs. crore)	Rating action
Short-term: Commercial paper	10.00	[ICRA]A1+ / assigned

**Instrument details are provided in Annexure-1*

Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus)¹ to the Rs. 10.0 crore² proposed commercial paper programme of Sundaram Industries Private Limited (SIPL).

ICRA also has long-term rating of [ICRA]AA (pronounced ICRA double A) outstanding on the Rs. 27.75 crore fund-based facilities and a short-term rating of [ICRA]A1+ outstanding on the Rs. 25.00 crore fund-based facilities and the Rs. 26.00 crore non-fund based facilities of SIPL. The outlook on long-term rating is stable.

Rationale

The rating remains supported by the financial flexibility enjoyed by SIPL from its strong investment portfolio and healthy market value of investments in comparison to its book values. The rating also consider the strong parentage (TV Sundram Iyengar and Sons P Limited, TVSI; rated [ICRA]AA (Stable) / [ICRA]A1+) and flexibility enjoyed by SIPL as part of the TVS Group. SIPL derives stable dividend flows from investments made in a few TVS group entities. The rating is, however, constrained by the vulnerability of SIPL's financial profile and its key investee companies to any demand slowdown in the automotive industry (as witnessed in the past), thin profit margins from the core business, and the susceptibility of profit margins to the movement in rubber prices.

Key rating drivers

Credit strengths

- Established track record of promoters in the business spanning more than six decades
- Financial flexibility enjoyed by the company, being part of the TVS Group
- Stable dividend from the investment portfolio
- Strong investment portfolio; the market value is significantly high compared to book values

Credit weaknesses

- Vulnerability to any demand slowdown in the automobile industry
- Thin but improving profit margins owing to relatively low value add nature of products

Description of key rating drivers:

SIPL, one of the holding companies for the TVS Group, holds investments in various entities (listed and unlisted) of the group. Against a book value of Rs. 40.5 crore, the market value of quoted investments (as on June 30, 2017) stood at ~Rs. 2,980 crore. Furthermore, investments in some of the unlisted entities provide financial comfort. That said, these investments are strategic in nature and are unlikely to be liquidated in the near term. SIPL is also an auto component supplier operating in three divisions—

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

² 100 lakh = 1 crore = 10 million

(a) rubber, (b) tyre solutions, and (c) solid tyres. Historically, the rubber division has been the primary revenue generating segment, but with demand slowdown and strong growth in solid tyres division, the segmental sales mix is relatively uniform currently.

SIPL reported a healthy 10% YoY growth in operating income and profits in FY2016, led by a one-time, higher than normal dividend receipts. However, with dividend received at normal levels in FY2017, the operating income and profits are seen lower. SIPL's debt indicators and liquidity profile continues to be comfortable.

Table 1

Key financial indicators	FY2016	FY2017
Operating income (crore)	446.6	433.2
PAT (crore)	64.4	43.2
OPBDIT/ OI (%)	18%	14%
RoCE (%)	33%	20%
Total Debt/ TNW (times)	0.2	0.1
Total Debt/ OPBDIT (times)	0.5	0.5
Interest coverage (times)	23.9	24.2
NWC/ OI (%)	12%	11%

Source: Company, ICRA research; Note – Financials for FY2017 are provisional

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

SIPL, one of the group companies of TVSI, was incorporated in 1943 in Pudukottai, Tamil Nadu. The holding company, TVSI, owns 56.7% in SIPL. The balance 43.3% is held by the four families of the TVS Group at an equal proportion of 10.8%. SIPL initially began as a provider of tyre retreading services, and later started the rubber division in 1962, followed by the solid industrial tyre division in 2006. During 2010-11, SIPL floated a subsidiary in Sri Lanka—Sundaram Lanka Tyres Limited—by taking over a company named, 'Watts Lanka P Limited'. SIPL's other subsidiaries include, Pusam Rubber Products Limited and Uthiram Rubber Products Limited, which are yet to commence operations. In FY2016, the company terminated the joint ventures (with Novotema Industrial Products S.p.A, Italy), TVS Novotema Elastomeric Engineered Products P Ltd. The shares held by the JV partner were acquired by SIPL, and consequently, the entity is now a wholly owned subsidiary of SIPL.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table 2

S. No.	Instrument	Current Rating			Chronology of Rating History for the past three years		
		Type	Amount rated (Rs. crore)	July 2017	Dec 2016	Dec 2015	Dec 2014
1	Fund based	Long term	27.75	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)
2	Fund based	Short term	25.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund based (sub limits)	Long / Short term	(5.00)	[ICRA]AA (stable) / [ICRA]A1+	[ICRA]AA (stable) / [ICRA]A1+	[ICRA]AA (stable) / [ICRA]A1+	[ICRA]AA (stable) / [ICRA]A1+
4	Non-fund based	Short term	26.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short term	10.00	[ICRA]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

Instruments	Date of issuance	Coupon rate	Maturity Date	Amount rated (Rs. crore)	Current rating and Outlook
Fund based (long term)	-	-	-	27.75	[ICRA]AA (Stable)
Fund based (short term)	-	-	-	25.00	[ICRA]AA (Stable)
Fund based (sub-limits)	-	-	-	(5.00)	[ICRA]A1+
Fund based (long term)	-	-	-	27.75	[ICRA]AA (Stable)
Commercial Paper	-	-	-	10.00	[ICRA]A1+

Source: SIPL

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