

Metro Tyres Limited

January 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	100.00	100.00	[ICRA]A- (Positive); outstanding
Non-fund Based Limits	50.00	50.00	[ICRA]A2+; outstanding
Unallocated	25.00	21.25	[ICRA]A- (Positive); outstanding
Term Loans	-	3.75	[ICRA]A- (Positive); outstanding
Total	175.00	175.00	

*Instrument details are provided in Annexure

Rating action

ICRA has the long-term and short-term ratings outstanding at [ICRA]A-/[ICRA]A2+ (pronounced ICRA A minus / ICRA A two plus) for Rs. 175.00-crore¹ bank facilities of Metro Tyres Limited ('MTL' or 'the company'). The outlook on the long-term rating is "Positive".

Rationale

The ratings for MTL continues to take into consideration its established operational track record, strong market position in the bicycle and cycle rickshaw tyres and tubes market, and its technical collaboration as well as off-take arrangement with Continental AG (Continental). ICRA notes that the company maintained a comfortable financial risk profile and liquidity position even as events such as demonetisation and implementation of Goods and Service Tax (GST) moderated demand for its tyres given MTL's significant dependence on after sales network. The sales to replacement market, which account for more than half of company's sales revenue, reported sharp decline during H2FY2017 (due to demonetisation drive in Q3FY2017) followed by period of weak off-takes before GST implementation during Q1FY2018. The ratings also factors in agility demonstrated by the management in scaling up supplies to original equipment manufacturers (OEMs) as well as exports during H1FY2018 thereby resulting in 4% growth (YoY) in net sales even as replacement market demand remained lacklustre as the distribution channel curtailed offtake in preparation of GST during Q1FY2018.

MTL's ratings are, however, constrained by thin profit margins and the company's exposure to the intense competition from unorganised as well as organised players in the replacement market for bicycle tubes and tyres. Given the subdued demand conditions over the past quarters, the management has deferred major capex plans over the medium term. Nonetheless, impact of any major debt funded expansion on MTL's credit profile would be evaluated as any concrete plan is shared by management.

¹ 100 lakh = 1 crore = 10 million

Outlook: Positive

The “Positive” outlook on the long-term rating reflects ICRA belief that the company would strengthen its presence in two-wheeler and three-wheeler tyres market supported by technical tie-up with Continental while maintaining dominant position in the bicycle and rickshaw tyres segment. The rating may be revised upward if the company is able to improve its scale of operation so as to improve cash flows from operations while maintaining the comfortable capital structure. On the other hand, the outlook may be revised to “Stable” if the company is unable to scale-up its operations to the expected levels over the next eighteen months.

Key rating drivers

Credit strengths

Nearly five decades of experience of the company in the bicycle and cycle rickshaw tyres and tubes segment- MTL commenced operations as a manufacturer of tyres and tubes for bicycles and cycle rickshaws in 1968. It subsequently diversified into manufacturing of tyres for two-wheelers and three-wheelers, and bicycle chains. The company has a large market network of 51 branches, over 6000 dealers and over 100 distributors for selling its products in the replacement market for its products across India. MTL derives nearly half of its sales from the domestic replacement market.

Technical collaboration with Continental AG - Technical collaboration as well as off-take arrangement with Continental (since 1999), fourth largest tyre manufacturing company worldwide. MTL derives ~10% of its gross sales from supplies of bicycle tyres to Continental.

Management focus on expanding product mix by including higher realization four-wheeler and e-rickshaw over the medium term – Over the recent years, the company has focused on increasing contribution from two-wheeler and three-wheeler tyres which is reflected in their contribution increasing from 7.4% in FY2009 to 32.1% in FY2017. Over the medium term, the management plans to get additional revenue streams from four-wheeler (for Tata Ace) and e-rickshaw tyres as well.

Healthy liquidity position, as evident from moderate level of utilisation, lends financial flexibility- The working capital limits utilisation for the company remains low indicating its healthy financial flexibility with availability of undrawn limits.

Comfortable financial risk profile with healthy capital structure and coverage indicators- Despite muted demand conditions in H2FY2017 following demonetisation, the company continued to have a comfortable financial risk profile with Total debt/ TNW of 0.5 time as on March 31, 2017 (0.4 time as on March 31, 2016) and Total Debt/ OPBITDA of 1.8 times as on March 31, 2017 (1.0 time as on March 31, 2016).

Credit challenges

Thin margins due to price sensitive customers - The Company’s margins remain range bound between 4%-7% given the price sensitive nature of customers and the significant revenue dependence on low value add cycle rickshaw segment.

High competitive intensity in the tyres and tubes market with large number of organized and unorganized players - The organised market for cycle and auto tyres and tubes, MTL competes with established players such as Ralson India Limited, Govind Rubber Limited, the Hartex group of companies, Hindustan Tyres Private Limited and Poddar Tyre Limited; MTL together with these players enjoys majority share of the organised segment. MTL also faces competition from unorganised players as well leading to competitive pricing.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

About the company

MTL commenced operations in 1968 as a manufacturer of tyres and tubes for bicycles and cycle rickshaws. It subsequently diversified into manufacturing of tyres for two-wheelers and three-wheelers, and bicycle chains. Currently, the company is also involved in the manufacture of certain high value products like foldable tyres (for bicycles) and tubeless tyres (for motorcycles) for both the global and the domestic markets.

MTL is part of a Metro Group. Its other concerns are Metro International (incorporated in 1997) and Metro Ortem Limited (MOL, incorporated in 1986). Currently both MTL and MOL are closely held companies with Mr. Rummy Chhabra (Son of Mr. Man Singh) as their Managing Director. MTL is a Star Export House duly recognised by the Govt of India, and all its four plants at Ludhiana are accredited with the ISO 9001 certification.

Key financial indicators (Audited)

MTL	FY 2016	FY 2017
Operating Income (Rs. crore)	636.4	565.4
PAT (Rs. crore)	16.4	10.5
OPBDIT/ OI (%)	5.7%	4.8%
RoCE (%)	24.8%	14.7%
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Total Debt/ TNW (times)	0.4	0.5
Total Debt/ OPBDIT (times)	1.0	1.8
Interest Coverage (times)	5.4	4.9
NWC/ OI (%)	16.5%	24.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan 2018	Date & Rating Dec 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
1	Cash Credit	Long Term	100.00		[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Non Fund Based Limits	Short Term	50.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
3	Term Loan	Long term	3.75	3.75	[ICRA]A- (Positive)	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
4	Unallocated	Long Term	21.75		[ICRA]A- (Positive)	[ICRA]A- (Positive)	-	-	-

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan	FY2016		FY2020	3.75	[ICRA]A- (Positive)
NA	Cash Credit				100.00	[ICRA]A- (Positive)
NA	Non Fund based Limits	NA	NA	-	50.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	21.25	[ICRA]A- (Positive)

Source: MTL

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