February 18, 2021

# Remsons Industries Limited: Ratings assigned to the enhanced amount

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based Cash Credit | 22.00 | 26.00 | [ICRA]BBB- (Stable); assigned/outstanding |
| Unallocated Limits Term Loan | 6.50 | 13.30 | [ICRA]BBB- (Stable); assigned/outstanding |
| Short-term Non-fund-based limits | 0.70 | 0.70 | [ICRA]A3; outstanding |
| **Total** | **29.20** | **40.00** | |

**Instrument details are provided in Annexure-1*

# Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Remsons Industries Limited (RIL) and its fully owned subsidiary, Remsons UK Limited, due to strong operational and financial linkages.

The assigned rating favourably factors in the longstanding experience of the promoters in the auto ancillary industry and the established client base that includes leading domestic and international automobile OEMs. Further, the ratings also take note of healthy revenue share from the export market, which is likely to improve further in FY2021 owing to incremental revenue from Remsons UK Limited. ICRA also takes note of the Group's above-average financial risk profile, characterised by adequate liquidity and above-average debt coverage indicators.

The ratings, however, are constrained by the moderate operating profitability compared to the industry average. The ratings also factor in the exposure of operations to the inherent cyclicality in the automobile industry, the susceptibility of margins to volatility in raw material prices and labour costs, and the intense competition from domestic as well as international players.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters and the established relationships with its reputed clientele.

# Key rating drivers and their description

## Credit strengths

**Long and established track record of promoters in auto ancillary industry –** Remsons was incorporated by Mr. V Harlalka on May 11, 1971, as a manufacturer of auto ancillary components, mainly auto control cables and gear shift assemblies. The promoters have a long and established track record of over four decades in the auto ancillary business. The company acquired a UK-based company, Magal Cables Limited, in September 2020 and renamed it as Remsons UK limited. The acquisition is expected to strengthen RIL's presence in the export market and aid revenue growth.

**Established relationships with reputed clients –** The client base of the company includes reputed automobile OEMs in the domestic and export markets such as Hero Moto Corp Ltd., Ashok Leyland Ltd., Force Motors Limited etc, Mahindra & Mahindra, Maruti Suzuki, Tata Motors Ltd, and Piaggio. The company has been doing business with these clients for over 15 to 30 years. Remsons UK Limited caters to globally reputed players such as Ford Motors Ltd, BMW AG, Diamler AG and Renault Nissan. The established relationship with customers and the limited churning in the customer base have ensured significant repeat business.

**Above-average financial risk profile –** RIL's revenue grew by ~7% to Rs. 159.18 crore in FY2020 from Rs. 149.37 crore in FY2019 owing to healthy growth in exports and improved off-take from the replacement market. On the back of improvement in profitability, the return indicators improved as evident from RoCE of 19.11% in FY2020 compared to 14.62% in FY2019. Owing to the weak cash flow generation in Q1FY2021, caused by the nationwide lockdown, the return indicators moderated in H1FY2021 weighed down by under absorption of business expenses. However, at a consolidated level, RIL is estimated to report healthy revenue growth and improve its profitability in H2FY2021 on the back of higher demand from key OEMs along with scale up of the UK operations.

The company's capital structure as on September 30, 2020, remained moderate with a gearing at 1.18 times. The company availed term-debt of Rs. 23.42 crore over September-October 2020 to fund the acquisition of the UK-based company. Therefore, the debt level is estimated to remain elevated in the near term, which will also lead to moderation in debt protection metrics. However, the company is under process to sell two of its real estate assets, which are estimated to generate proceeds of ~Rs. 12 crore in over the next 12 months. The proceeds from the asset sales will be used to repay external debt, thereby normalising the debt levels. Further, the healthy growth in revenues and profitability estimated in H2FY2021 and FY2022, at a consolidated level, would improve the capital structure and debt coverage metrics in FY2022-FY2023.

## Credit challenges

**Profit margins remain susceptible to volatility in raw material prices -** The key raw materials for the company are steel, plastic, PVC, zinc and other consumables. Apart from these, labour cost constitutes a significant part of the company's overall cost structure. Given its limited ability to pass on the increase in labour and manufacturing expenses to its customers due to its limited bargaining power and intense competitive landscape, the profitability margins have continued to be under stress over the last two fiscals.

**Stiff competition from organised players in OEM segment and large unorganised segment in the replacement market –** The company faces stiff competition from other auto component manufacturers in the domestic as well as export markets in case of OEM sales. Further, the replacement market remains largely unorganised at present in India, thus limiting the company's bargaining power of to some extent.

## Liquidity position: Adequate

The liquidity position stood adequate supported by the expected adequate cash flow generation against the annual debt repayment obligations in FY2021. The company also has adequate liquidity cushion in terms of undrawn working capital limit of ~Rs. 7.00 crore and cash and liquid investment of ~Rs. 4 crore as on December 31, 2020. The average utilisation of working capital limit stood moderately high at ~70% over the past 12 months i.e. January 2020-December 2020.

### Rating sensitivities

**Positive factors –**

- Sustained improvement in scale of operations and improvement in profitability and working capital cycle.

**Negative factors –**

- Substantial decline in scale of operations or profitability, leading to deterioration in key credit metrics.
- Large debt-funded capex or stretch in receivables deteriorating the liquidity profile.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Auto Component Manufacturers<br>Consolidation and rating approach |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | ICRA has taken a consolidated view of Remsons Industries Limited and its subsidiary – Remsons UK Limited. |

# About the company

Remsons Industries Limited was incorporated in 1971 by the Late Mr. V. Harlalka as Remsons Cables Industries Private Limited (RCPL). In May 1984, RCPL took over the auto component trading business of Remsons India, a partnership concern, which was initially a proprietorship concern of Mr. V. Harlalka. Subsequently, RCPL was converted into a public limited company in October 1986 and renamed Remsons Industries Limited in November 1986. Further, Daman Auto Industries Ltd., Rems Auto Engineers Ltd., and Remsons Auto Industries Pvt. Ltd. were amalgamated with the company with effect from April 2005.

Remsons is involved in the manufacturing of auto components such as auto control cables, flexible shafts, gear shift systems, push pull cables and parking brake mechanism. Automobile industry accounts for ~97% of the company's sales and the non-automotive sectors like marine and electrical sectors account for the rest. The company also exports the auto control cables to Europe and the USA, with Europe accounting for bulk of the exports. Remsons also supplies various auto control cables in the replacement market. The company has six manufacturing plants across Gurgaon (Haryana), Daman (Daman and Diu; four plants) and Pardi (Gujarat). The design and validation facilities are available in Gurgaon and Mumbai. The Gurgaon and Daman facilities are ISO/TS 16949: 2009 and ISO 9001: 2008 certified. The Daman unit is additionally certified as per ISO 14001: 2004 standards. In September 2020, the company acquired a UK-based company, Magal Cables Limited, wherein it assumed control from October 15, 2020. The said unit has been renamed as "Remsons UK Limited".

RIL reported a profit after tax (PAT) of Rs. 1.76 crore on an operating income (OI) of Rs. 135.08 crore in 9MFY2021, compared to a PAT of Rs. 5.34 crore on an OI of Rs. 159.18 crore in FY2020.

Post the acquisition of the UK unit in October 2020, the company started reporting consolidated numbers from Q3FY2021. At a consolidated level, the company reported a PAT of Rs. 1.64 crore on an OI of Rs. 149.39 crore in 9MFY2021.

## Key financial indicators (audited) - Standalone

| Remsons Industries Limited - Standalone | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 149.4 | 159.2 |
| PAT (Rs. crore) | 3.44 | 5.34 |
| OPBDIT/OI (%) | 5.9% | 7.2% |
| RoCE (%) | 2.3% | 3.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.7 | 2.4 |
| Total Debt/OPBDIT (times) | 3.0 | 2.6 |
| Interest Coverage (times) | 4.1 | 4.5 |
| DSCR (times) | 2.9 | 3.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

*Source: Company, ICRA Research; All ratios as per ICRA calculations*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

# Rating history for past three years

| | Instrument | Current Rating (FY2021) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Nov 30, 2020 (Rs. crore) | Date & Rating in | FY2021 | FY2021 | FY2021 |
| | | | | | Feb 18, 2021 | Feb 04, 2021 | Sept 17, 2020 | Apr 07, 2020 |
| **1** | Cash Credit | Long Term | 26.00 | 19.01^ | [ICRA]BBB- (Stable); assigned/outstanding | [ICRA]BBB- (Stable); reaffirmed and removed from rating watch with developing implications | [ICRA]BBB- &; rating placed on watch with developing implications | [ICRA]BBB- (Stable) |
| **2** | Term Loan | Long Term | 13.30 | 11.87^ | [ICRA]BBB- (Stable); assigned/outstanding | [ICRA]BBB- (Stable); reaffirmed and removed from rating watch with developing implications | [ICRA]BBB- &; rating placed on watch with developing implications | [ICRA]BBB- (Stable) |
| **3** | Non Fund Based Limits | Short Term | 0.70 | - | [ICRA]A3; outstanding | [ICRA]A3; reaffirmed and removed from rating watch with developing implications | [ICRA]A3 &; rating placed on watch with developing implications | [ICRA]A3 |

*Source: RIL financials; O/s as on December 31, 2020*

## 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 |
|---|---|---|---|---|---|---|
| NA | Cash Credit | - | - | - | 26.00 | [ICRA]BBB- (Stable) |
| NA | Term Loan | Mar-2016 | - | Mar-2026 | 13.30 | |
| NA | Letter of Credit | - | - | - | 0.50 | [ICRA]A3 |
| NA | Bank Guarantee | - | - | - | 0.20 | |

***Source:*** *Remsons Industries Limited*

*Annexure-2: List of entities considered for consolidated analysis*

| Company Name | RIL Ownership | Consolidation Approach |
|---|---|---|
| Remsons UK Limited | 100%<br>(Non-rated entity) | Full Consolidation |

***Source:*** *Company data*
***Note:*** *ICRA has taken a consolidated view of the parent (RIL) and subsidiary while assigning the ratings.*

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## 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.

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