November 26, 2021

Bharat Seats Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	35.20	35.20	[ICRA]A-(Stable); Reaffirmed
Long-term Fund-based – Term Loan	28.56	5.69	[ICRA]A-(Stable); Reaffirmed
Short -term – Non-fund Based Working Capital	20.00	40.00	[ICRA]A2+; Reaffirmed;
Long-term/ Short-term – Unallocated	-	1.11	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed
Total	**83.76**	**82.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings factor in Bharat Seats Limited's (BSL) established positions as a seat supplier to Maruti Suzuki India Limited (MSIL), and its favourable ownership structure, with Suzuki Motor Company (SMC) and MSIL holding a combined equity stake of 29.6%. BSL is one of the two suppliers of car seat sets for MSIL and continues to be the sole supplier of seat sets for several key models. The company enjoys technical collaborations with Toyo Seats Co. Ltd. for seats and with INOAC Corporation for roof moulding and windshield components, which supplements its in-house product development capabilities and helps BSL adapt to the Original Equipment Manufacturer's (OEM's) changing technological requirements. BSL is also the sole supplier of two-wheeler (2W) seats to Suzuki Motorcycle India Private Limited (SMIPL). While the revenue contribution from this division is less, it provides diversification benefits to an extent.

The company's operating performance over the recent past was impacted by the localised lockdowns led by the second wave of Covid-19 infections, impacting the supply chain and production in Q1 FY2022. The industry has also been impacted by shortage of semiconductor chips in the current fiscal, which led to OEMs announcing production cuts in Q2 FY2022. Additionally, commodity prices increased significantly during Q2 FY2022, which could not be passed on fully to end-customers. All these reasons combined impacted the operational performance of the company leading to lower operating profit margins (OPM) of 2.9% in H1 FY2022. Along with elevated debt levels (higher working capital utilisation), this led to slightly weaker coverage metrics for the company in H1 FY2022. Nevertheless, the company's growth prospects over the medium term are expected to remain healthy, aided by its healthy share of business with MSIL (in car seats and carpet sets) along with an expectation of recovery in supplies in the PV industry; the same would lead to better absorption of costs, improving margins and coverage metrics.

The ratings continue to be constrained by the company's high dependence on MSIL, given that more than 85% of its revenues are linked to the OEM's performance. The same is mitigated to a certain extent by the company's healthy share of business with MSIL, its favourable ownership pattern along with leadership position of MSIL in the passenger vehicle (PV) segment. While the company's share of business has declined to around 30% in recent years, it has recently secured business for new models of MSIL. In line with this, ICRA expects the company's share of business to improve gradually over the near-to-medium term, aided by new business awards that aid the company's earnings prospects.

The Stable outlook on the long-term rating reflects ICRA's opinion that BSL will continue to benefit from its established relationship with MSIL, favourable ownership and healthy financial risk profile. Moreover, efforts towards backward integration are likely to result in cost efficiencies, thereby increasing BSL's competitiveness.

Key rating drivers and their description

Credit strengths

Well-established relationship with MSIL – BSL has an established relationship with MSIL, the market leader in the PV industry, and is one of the two suppliers of car seat sets for the OEM. Despite some loss of business in recent years, BSL continues to be the sole supplier in this category for several key models of MSIL. Moreover, the company manufactures carpet sets for some of the models of MSIL as well and has gained additional business for three new models from this division.

Favourable ownership with MSIL and SMC owning stakes in BSL, beside benefits of technical collaboration – BSL has been promoted by the Relan family and its key OEMs, MSIL and SMC, which together have a combined stake of 29.6% in BSL. Moreover, it enjoys technical collaborations with Toyo Seats Co. Ltd. for seats and with INOAC Corporation for roof moulding and windshield components. This has resulted in BSL gaining a healthy share of business with MSIL over the years.

Status as sole supplier of 2W seats to SMIPL providing diversification benefits – BSL remains the sole supplier of 2W seats for all the models of SMIPL. The company witnessed a volume contraction of 32% from the sale of 2W seat assemblies to SMIPL in FY2021, mainly due to decline in production at the OEM's end. Although the revenue share from this division remains relatively low at present, as the share from this segment increases, it is likely to provide greater diversification benefits to BSL.

Credit challenges

High client concentration risk with more than 85% of revenues generated by MSIL – MSIL accounted for more than 85% of BSL's revenue in FY2021. This exposes the company to high customer concentration risk with its revenue prospects primarily remaining linked to MSIL's volumes. However, the same is partially mitigated by the company's healthy share of business with MSIL and its favourable ownership pattern, wherein MSIL and SMC hold a combined stake of 29.6%. Additionally, the leadership position of MSIL in the PV segment helps in mitigating the risk to an extent.

Decline in share of business in recent years; expected to recover to an extent over the medium term – At present, BSL is one of the two major seat set suppliers to MSIL. Over the years, it has enjoyed close to 40% share of business with MSIL. However, in recent years, the company's competitor has won the award for supplying seat sets to most of the new models of MSIL, and along with lower sales of the models catered by BSL, this has led to its share of business with MSIL declining to around 30%. Nevertheless, the company has been awarded front car seats for two new models of MSIL and the back seat for one of these new models is also expected to move to BSL gradually. Given the same, the share of business is expected to improve in the near to medium term.

Liquidity position: Adequate

BSL's liquidity is adequate with cash and liquid investments of Rs. 1.3 crore and working capital buffer of Rs. 11.9 crore as on September 30, 2021. The company is expected to incur capex of Rs. 15-20 crore per annum and has long-term debt repayment obligations of Rs. 3.8 crore in FY2022 and Rs. 1.9 crore in FY2023. Going forward, BSL is expected to meet its capex requirements over the near-term from internal accruals and promoter infused unsecured loans, as and when required. Moreover, the company continues to enjoy healthy financial flexibility, as a part of the Relan Group.

Rating sensitivities

Positive factors – A sustained improvement in BSL's share of business with MSIL or diversification of clientele through new business awards could result in a positive rating action. ICRA would also favourably consider any improvement in profitability indicators aided by cost efficiency and backward integration measures, such that the company can generate RoCE above 18% on a sustained basis.

Negative factors – Further loss of business with MSIL or a sustained weakness in the PV industry, leading to reduced scale of operations and weak cash accruals for BSL, ultimately impacting its return and credit metrics could result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of BSL.

About the company

Incorporated in 1986, Bharat Seats Limited (BSL) is a joint-venture (JV) between Indian promoters (Relan Group), Maruti Suzuki India Limited (MSIL) and Suzuki Motors Corporation (SMC), engaged in manufacturing cars seats for MSIL. From FY2006 onwards, BSL diversified its operations to manufacture moulded floor carpets for MSIL and two-wheeler seats for Suzuki Motorcycle India Private Limited (SMIPL). Currently, the company's manufacturing facilities are at Gurgaon (Haryana), Manesar (Haryana), Borakalan (Haryana) and Surendra Nagar (Gujarat).

BSL is promoted by Mr. Rohit Relan and family. Mr. Relan is a chartered accountant with a President Management Programme from Harvard Business School, USA. The Relan Group has recently gone through a family restructuring exercise, whereby BSL's shareholding now resides with Mr. Relan and family.

During FY2021, the company derived 85.7% of revenues from its car seat assembly division, 5.5% from motorcycle seat division and the rest from other divisions, such as hoods for seats (for Gypsy model) and carpet sets, etc. The company's revenue is generated entirely from the domestic market.

Key financial indicators (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	589.8	548.7
PAT (Rs. crore)	12.5	4.8
OPBDIT/OI (%)	6.3%	5.1%
PAT/OI (%)	2.1%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.5
Total Debt/OPBDIT (times)	1.1	1.3
Interest Coverage (times)	11.5	6.5

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 (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
					Nov 26, 2021	Nov 27, 2020	Aug 30, 2019	Aug 8, 2019	Mar 11, 2019	June 8, 2018
1	Fund Based-Cash Credit	Long-term	35.20	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund Based-Term Loans	Long-term	5.69	5.76	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-Fund Based	Short term	40.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long-term and short term	1.11	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loan	Simple
Short -term – Non-fund Based Working Capital	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	35.20	[ICRA]A-(Stable)
NA	Term Loan	FY2021	NA	FY2025	5.69	[ICRA]A-(Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	40.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	1.11	[ICRA]A-(Stable)/[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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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