January 24, 2022(Revised)

Subros Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	36.00	25.00	[ICRA]AA- (Stable); Reaffirmed
Non Fund-Based Facilities	95.00	95.00	[ICRA]A1+; Reaffirmed
Fund Based Limits	30.00	80.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Fund/Non Fund-based Limits	125.00	100.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Unallocated Limits	17.50	3.50	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Total Bank Facilities	**303.50**	**303.50**	
Commercial Paper	**75.00**	**75.00**	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation for Subros Limited (Subros) continues to factor in its strong market position in the thermal products segment of the passenger vehicle (PV) industry, benefitting from its integrated manufacturing operations and strong product development capabilities, which is supported by technical support from Denso Corporation. The rating reaffirmation also favourably factors in Subros' healthy financial risk profile, characterised by a conservative capital structure, strong debt coverage indicators (Total Debt/OPBDITA of 0.3 time, Interest coverage of 9.5 times and NCA/Total Debt of 260% in FY2021) and a strong liquidity profile (cash and bank balances of ~Rs. 93 crore as of September 30, 2021).

Despite the challenges brought on by the second wave of the pandemic and the shortage of semiconductor chips leading to curtailed production of various OEMs, Subros reported a healthy revenue growth of 90% to Rs. 1,009.9 crore in H1 FY2022. Even as offtake over the near term may remain constrained by a continuation of shortage of semiconductors, its medium-term prospects remain healthy, given its strong market position in the PV industry as well as an expectation of an enhanced contribution from the other business segments (commercial vehicles or CVs, railways and home air conditioner (AC) segments); the same is expected to aid segment diversification and support revenue growth (expected CAGR of 12-14% over the medium term) of the company.

The company's business remains characterised by high customer concentration risk with sales to Maruti Suzuki India Limited (MSIL; including indirect sales) accounting for ~84% of the revenues in FY2021. Although the company faces customer and segment concentration risks, they are mitigated to an extent by its strong share of business with MSIL and the OEM's market leadership in the PV segment. Moreover, business gains from new segments are also expected to lead to some moderation in the segment and client concentration risk, going forward.

Even as the company's operating profitability has remained impacted in the current fiscal by high commodity prices, increase in diesel prices, logistics and packaging costs, the profitability indicators are expected to recover over the medium term, aided by various operational efficiency measures undertaken. ICRA expects the company's operating margins and return indicators to gradually improve over the medium term, benefitting from economies of scale, measures to rationalise costs as well as increased localisation.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's revenue and earnings growth will remain at stable levels over the medium term, supported by continued business awards from MSIL and diversification into new segments, which currently contribute ~10-12% to its turnover. ICRA expects the company to continue to maintain a conservative financial risk profile, reflected by its limited incremental dependence on external borrowings.

Key rating drivers and their description

Credit strengths

Strong market share in thermal products for PV industry; ramp up in supplies for other businesses to aid sector diversification over medium term - Subros is a leading automotive thermal system manufacturer in the domestic market. Despite intense competition in the sector, it has successfully maintained a strong market position (an estimated market share of ~42% in the addressable product range in the PV industry), benefitting from its integrated manufacturing operations and strong product development capabilities (aided by a technical collaboration agreement with one of its key shareholders, Denso Corporation). The company's revenue mix has remained skewed towards the PV segment; however, over the last few years, it has expanded its product range to cater to CV OEMs, besides other segments such as home ACs (through contract manufacturing operations for other brands) and the Indian Railways. Although the PV segment is likely to remain the mainstay of the company's business prospects, its dependence on the segment is expected to reduce over the medium term as supplies for new business segments scale up.

Technical collaboration with Denso Corporation strengthens product development capabilities and competitive positioning - Subros has a technical collaboration with Denso Corporation, a leading automotive manufacturer in the global market. The company's strong product development capabilities, coupled with its considerable scale of operations and low-cost structure, have enabled it to sustain a strong market position over the years. Its strong parentage (Suzuki Motor Corporation and Denso Corporation hold ~12% and ~20% equity stakes, respectively) has also helped it to maintain strong business relationships with its primary customer, MSIL, while aiding in establishing relationships with new customers.

Healthy financial risk profile, characterised by conservative capital structure and strong debt coverage indicators - Subros received an equity infusion of Rs. 209.88 crore from the issue of equity shares on preferential basis to Denso Corporation, Japan, in December 2018 (FY2019). The company utilised the equity proceeds for part repayment of its debt and creditors, and continues to maintain healthy cash and bank balances (~Rs. 93 crore as of September 30, 2021). The financial risk profile of the entity improved significantly post the equity infusion, and is now characterised by a conservative capital structure (gearing of 0.1 time as of March 31, 2021) and strong debt coverage indicators (total debt/OPBDITA of 0.3 time, interest coverage of 9.5 times and NCA/total debt of 260% in FY2021). The total outside liabilities/ total net worth ratio also remains at moderate levels of 0.8 time, despite the significant creditors on the company's balance sheet. With capex requirements expected to remain at moderate levels, going forward, an expectation of improved cash accruals is likely to help the company maintain its strong financial risk profile, with total debt/OPBDITA expected to reduce to levels of 0.1–0.2 time by FY2024.

Credit challenges

High client and segment concentration risks with MSIL driving ~80% of sales - The company remains exposed to customer concentration risk with sales to MSIL accounting for ~84% (including indirect sales) of its total revenues in FY2021. Although the heavy dependence on MSIL results in high client concentration risk, the same is mitigated to a large extent by the OEM's market leadership in the PV segment and Subros' strong share of business across various model programmes of the OEM. Subros also remains focused on reducing its segment and client concentration risks through business gains from new segments, such as CVs, home ACs and the railways.

Moderate profitability and return indicators - Subros's operating profitability had remained at stable levels of 10-11% till FY2019, aided by the company's efforts to increase its localisation levels with a view of improving operational efficiency. However, the operating profitability moderated in FY2021 and H1 FY2022 because of—a) near washout of operations in Q1 FY2021 and again in May 2021 due to the pandemic induced lockdowns and b) high commodity prices, increase in diesel prices, logistics and packaging costs. Nevertheless, the company's operating margins are expected to gradually improve over the medium term benefitting from economies of scale, measures to rationalise costs as well as increased localisation (operating margins to range between 9-10%). Post a moderation in RoCE in FY2021 and the current fiscal to levels of 7-9%, an expectation of a gradual improvement in operating margin, going forward, is likely to help the company maintain healthy return indicators (RoCE expected to range between 12-16% over the medium term).

Liquidity position: Strong

The liquidity position of the entity remains **strong**, supported by sizeable cash and bank balances (~Rs. 92.9 crore of cash and liquid investments as of September 30, 2021), nil utilisation of working capital facilities and expectation of strong cash accruals (~Rs. 120-150 crore per annum). The entity continues to have sufficient liquidity to meet its debt repayments (~Rs. 12 crore in FY2023) and moderate capex plans (~Rs. 80- 100 crore in FY2023).

Rating sensitivities

Positive factors – ICRA could upgrade Subros' rating in case of:

- a sustained improvement in its operational profile through material diversification of its automotive segment mix
- an improved demand scenario, leading to an improvement in the company's return metrics

Negative factors – ICRA could downgrade Subros' rating in case of:

- a significant deterioration in its operational profile led by a decline in SOB with key OEMs, especially MSIL
- deterioration in profitability indicators or a higher-than-expected capital expenditure/ acquisition outlay, which adversely impacts its credit profile
- Debt/OPBDITA greater than 1.5 times on a sustained basis

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Subros Limited. As on March 31, 2021, the company had a JV, which is enlisted in Annexure-2. The scale of operations of the consolidated entity is not material, and the standalone credit profile remains the primary rating driver.

About the company

Incorporated in 1985, Subros Limited is a leading thermal system manufacturer with the capability to manufacture compressors, condensers, hoses and tubes. The company is promoted by the Suri family, whose business interests are spread across diverse industries, such as education, hospitality and telecom access products. While the company was initially focused on providing cooling solutions for the PV segment, over the years it has gradually expanded its product portfolio to include thermal systems for homes, bus cabins, truck cabins, railway coaches and driver cabins.

The company's manufacturing plants at Noida (Uttar Pradesh), Manesar (Haryana), Pune (Maharashtra), Chennai and Karsanpura (Gujarat) have an annual production capacity of ~2.0 million AC kits. It also has a manufacturing and assembly unit for residential and commercial cooling products at Nalagarh (Himachal Pradesh). Subros has a technological agreement with Denso Corporation, Japan, a leading automotive manufacturer in the global market. Denso Corporation currently owns a 20%

ownership interest in Subros. Suzuki Motor Corporation, Japan, also holds a ~11.96% share in the listed entity, with ~36.79% held by the Suri family.

Key financial indicators (audited)

Subros Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	1,992.8	1,795.7	1,009.9
PAT (Rs. crore)	82.9	46.7	7.9
OPBDIT/OI (%)	9.7%	8.6%	6.1%
PAT/OI (%)	4.2%	2.6%	0.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8	0.8
Total Debt/OPBDIT (times)	0.8	0.3	0.3
Interest Coverage (times)	5.3	9.5	9.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA research

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 Oct 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					Jan 24, 2022	Feb 26, 2021	May 13, 2020	Apr 24, 2020	Jan 24, 2020	Dec 19, 2018
1	Term Loans	Long-term	25.00	25.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non Fund-Based Facilities	Short-term	95.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund Based Limits	Long-term and short term	80.00	NA	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-
4	Fund/Non Fund-based Limits	Long-term and short term	100.00	NA	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-
5	Unallocated Limits	Long-term and short term	3.50	NA	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-

6	Commercial Paper	Short-term	75.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
7	Fund Based Limits	Long-term	-	-	-	-	-	-	-	**[ICRA]AA- (Stable)**
8	Non Fund-Based Facilities	Long-term	-	-	-	-	-	-	-	**[ICRA]AA- (Stable)**
9	Fund Based Limits	Short-term	-	-	-	-	-	-	-	**[ICRA]A1+**
10	NCD Programme	Long-term	-	-	-	-	**[ICRA]AA- (Stable); withdrawn**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**

**Update on details of lender facilities was published on July 23, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Non Fund-Based Facilities	Very simple
Fund Based Limits	Simple
Fund/Non Fund-based Limits	Simple
Unallocated Limits	Not applicable
Commercial Paper	Very simple

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 analysing 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: Click Here

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	January 2018	NA	August 2023	12.80	[ICRA]AA- (Stable)
NA	Term Loan-II	June 2020	NA	June 2025	12.20	[ICRA]AA- (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	95.00	[ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	80.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Fund/Non Fund-based Limits	NA	NA	NA	100.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	3.50	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Commercial Paper	Yet to be placed			75.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Subros Ownership	Consolidation Approach
Subros Limited	Rated entity	Full Consolidation
Denso Subros Thermal Engineering Centre India Limited	26.00%	Equity Method

Source: *Subros annual report FY2021*
Note: *ICRA has considered consolidated financials of Subros while assigning the ratings.*

Corrigendum

Document dated January 24, 2022, has been corrected with revision as detailed below:

a) Revision made on page no. 7, in the note below Annexure-2. 'ICRA has taken a consolidated view of Subros and its joint venture' has been revised to 'ICRA has considered consolidated financials of Subros'.

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