

March 02, 2023

## Sundaram Brake Linings Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Cash credit	55.00	75.00	[ICRA]BBB+ (Stable); reaffirmed / assigned for enhanced amount
Long-term fund based – Term loan	0.00	10.00	[ICRA]BBB+ (Stable); assigned
Short-term non-fund based	4.07	4.07	[ICRA]A2; reaffirmed
Short-term fund based – sublimit	(35.00)	(35.00)	[ICRA]A2; reaffirmed
Short-term non-fund based – sublimit	(1.50)	(1.50)	[ICRA]A2; reaffirmed
<b>Total</b>	<b>59.07</b>	<b>89.07</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation considers Sundaram Brake Linings Limited's (SBLL) established market position in the friction materials used in automobiles and its stable operational profile. The company has reputed tier-I automobile suppliers as its customers in the domestic original equipment manufacturers (OEM) segment and distributes through established pan-India players in the aftermarket segment. Further, SBLL has a conservative capital structure (gearing of 0.6 times as on September 30, 2022), supported by relatively moderate working capital borrowings and low long-term debt. SBLL's liquidity position remains adequate with a comfortable buffer of Rs. 25.9 crore in working capital lines as of December 31, 2022. The ratings also favourably consider the strong financial flexibility it enjoys with lenders/investors by being a part of the T S Krishna Group (part of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry).

While SBLL's revenues grew by 23.7% YoY to Rs. 264.7 crore in 9M FY2023 supported by healthy growth in domestic and replacement sales, it reported operating losses of Rs. 0.6 crore, impacted primarily by lag in the pass through of raw material price increase. Despite debt being moderate at Rs. 55.8 crore as of December 31, 2022, the weak accruals have resulted in deterioration in coverage metrics.

While the healthy demand outlook in the domestic market, new product additions and SBLL's stable orderbook position are likely to support revenues going forward, any slowdown in export revenues could cap the upside. The company is expected to receive around Rs. 7.0 crore in Q4 FY2023 pertaining to retrospective price increases arising from raw material cost inflation. This, along with softening of raw material prices in the recent months and cost-optimisation measures undertaken are likely to improve earnings on a full-year basis in FY2023. SBLL's margins are expected to increase further in FY2024 supported by cost-optimisation measures and operating leverage benefits, with anticipated improvement in topline. However, the extent of improvement remains to be seen, given that the company would continue to witness competition from industry incumbents and players from the unorganised segment. With the anticipated improvement in accruals and in the absence of significant debt-funded capex plans, ICRA expects SBLL's debt metrics to improve going forward. SBLL derives a sizeable part of its revenues from exports, and imports part of its raw materials. This exposes the company to risks arising from forex fluctuations. However, the natural hedge and borrowings in foreign currency mitigate the risk to an extent.

## Key rating drivers and their description

### Credit strengths

**Established player in the Indian friction material industry** – SBLL is a reputed player in the Indian friction material industry used in the automobiles. The company counts established tier-1 automotive suppliers and auto OEMs catering to the commercial vehicle, two-wheeler and passenger vehicle segments among its direct and indirect clients. In the domestic aftermarket space, SBLL has a pan-India network catering through seven distributors and its direct stockist network. Apart from this, the company derives a material portion of its revenues from exports (38.7% of revenues in 9M FY2023), which provides diversification.

**Conservative capital structure** – The company had a comfortable capital structure as illustrated by a gearing of 0.6 times as on September 30, 2022 (0.5 times as on March 31, 2022). It did not undertake any major capex in the last several years and its debt primarily consists of working capital borrowings. The company has total capex plans of Rs. 28.0 crore during FY2023-FY2025, part of which is expected to be debt funded. Nonetheless, ICRA expects SBLL's capital structure to remain comfortable, going forward as well.

**Part of the T S Krishna Group** – SBLL enjoys lenders/investors comfort by virtue of belonging to the T S Krishna Group (part of the larger TVS Group of Companies – an established name in the domestic auto ancillary industry). The promoters own a 65.5% stake in the company, with 32.7% held by Madurai Alagar Enterprises Private Limited and 13.8% by Mr. Krishna Mahesh, SBLL's Managing Director and fourth-generation member of the TVS family (as on December 31, 2022).

### Credit challenges

**Operating losses in 9M FY2023; however, margins expected to improve going forward** – The company reported operating losses of Rs. 0.6 crore in 9M FY2023 against an operating profit of Rs. 6.4 crore in FY2022 primarily because of lag in the pass through of raw material price increase. However, the company is expected to receive around Rs. 7.0 crore in Q4 FY2023 pertaining to retrospective price increases arising from raw material cost inflation. This, along with softening of raw material prices in the recent months and cost-optimisation measures undertaken are likely to improve accruals on a full-year basis in FY2023. SBLL's margins are expected to increase further in FY2024 supported by cost-optimisation measures and operating leverage benefits, with anticipated improvement in topline. However, the extent of improvement remains to be seen.

**Modest scale of operations**– Despite healthy YoY growth of 25.4% and 23.7% respectively in the operating income in FY2022 and 9M FY2023, SBLL has a modest scale of operations at Rs. 264.7 crore in 9M FY2023 (Rs. 298.2 crore in FY2022). While the healthy demand outlook in the domestic market, new product additions and SBLL's healthy orderbook position are likely to support revenues going forward, any slowdown in export revenues could cap the upside.

**SBLL faces competition from industry incumbents and the unorganised segment in domestic markets; exports remain concentrated in USA** – In the domestic market, SBLL continues to witness competition from industry incumbents such as Rane Brake Lining Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+), Masu Brakes Private Limited and Hindustan Composites Limited, to name a few. SBLL continues to witness competition from the unorganised segment in the replacement markets as well. However, its established presence in the friction industry and strong market position mitigate the risk to an extent. While SBLL has a favourable export-domestic mix, it derives a significant portion of its export revenues from the USA (19.3% of revenue in 9M FY2023), exposing it to regional risks/slowdown in the market.

## Environmental and Social risks

**Environmental considerations** – SBLL, being an auto component supplier, remains indirectly exposed to climate-transition risks by virtue of its automotive OEM customers manufacturing products used across different fuel powertrains. Accordingly, the prospects for SBLL are linked to the ability of its customers to meet tightening emission requirements. The company remains exposed to tightening environmental regulations with regard to waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. The company has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and extensive water recycling.

**Social considerations** – Social considerations for SBLL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by original equipment manufacturers (OEMs) because of defective auto parts could create additional cost burden and liabilities. The company also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ride-sharing.

## Liquidity position: Adequate

SBLL’s liquidity position remains adequate, with a comfortable buffer of Rs. 25.9 crore in working capital lines as of December 31, 2022. The average working capital utilisation stood at 72.7% of sanctioned limits in the last 12 months period that ended in December 2022. Against these sources of cash, SBLL has debt repayment obligations of Rs. 0.5 crore in Q4 FY2023 and Rs. 1.8 crore each in FY2024 and FY2025 on its existing loans. The company has a total capex of Rs. 5.0 crore in FY2023, Rs. 13.0 crore in FY2024 and Rs. 10.0 crore in FY2025. SBLL also enjoys lender/investor comfort by virtue of belonging to the T S Krishna Group (part of the larger TVS Group).

## Rating sensitivities

**Positive factors** – ICRA could upgrade SBLL’s ratings if it achieves significant improvement in its scale of operations and profitability indicators, resulting in improved credit metrics. Specific credit metric that could lead to an upgrade include TD/OPBDITA less than 2.3 times on a sustained basis.

**Negative factors** – Negative pressure on ratings will emanate from a sharp contraction in revenues and earnings or increase in debt levels, leading to moderation in coverage metrics and liquidity position.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturer</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement of the company

## About the company

Sundaram Brake Linings Limited (SBLL) primarily manufactures asbestos-free friction material such as brake linings, disc pads and clutch facings for the automobile industry. The company also manufactures tractor linings and friction material for industrial applications, and trades in rivets. SBLL caters to three broad segments – a) tier-I suppliers of automobile OEMs, b) aftermarkets—replacement, state transport units (STUs) and branded spares, and c) exports— to over 60 countries. The company has four operational manufacturing facilities in Tamil Nadu. As on December 31, 2022, the promoters held a 65.5% stake in the company. SBLL is part of the T S Krishna Group, which in turn is part of the larger TVS Group. The company is at present managed by Mr. Krishna Mahesh, a fourth generation TVS family member.

### Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	237.7	298.2
PAT	6.0	0.1
OPBDIT/OI	3.8%	2.1%
PAT/OI	2.5%	0.0%
Total outside liabilities/Tangible net worth (times)	1.0	1.2
Total debt/OPBDIT (times)	3.3	6.5
Interest coverage (times)	5.3	2.5

Amounts in Rs. crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities.

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

### Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Mar 02, 2023	July 04, 2022	May 21, 2021	July 24, 2020	Dec 02, 2019	
1	Cash Credit	Long term	75.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Term loan	Long term	10.00	7.18	[ICRA]BBB+ (Stable)	-	-	-	-
3	EPC/PCFC – Sublimit	Short term	(35.00)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	LC/CEL	Short term	4.07	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	BG – Sublimit	Short term	(1.50)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[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	Simple
Short-term fund based – sublimit	Simple
Short-term non-fund based – sublimit	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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	9.35-9.90%	NA	75.00	[ICRA]BBB+ (Stable)
NA	Term loan	FY2023	8.15%	NA	10.00	[ICRA]BBB+ (Stable)
NA	EPC/PCFC – Sublimit	NA	5.91-6.06%	NA	(35.00)	[ICRA]A2
NA	LC/CEL	NA	NA	NA	4.07	[ICRA]A2
NA	BG – Sublimit	NA	NA	NA	(1.50)	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA.](#)

**Annexure II: List of entities considered for consolidated analysis: Not Applicable**

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