

## Remsons Industries Limited

December 06, 2018

### 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	22.00	[ICRA]BBB- / Upgraded from [ICRA]BB+; Outlook revised from 'Positive' to 'Stable'
Long-term: Fund based – Term Loans	6.50	6.50	[ICRA]BBB- / Upgraded from [ICRA]BB+; Outlook revised from 'Positive' to 'Stable'
Short-term: Non Fund based limits	0.70	0.70	[ICRA]A3 / Upgraded from [ICRA]A4+
<b>Total</b>	<b>29.20</b>	<b>29.20</b>	

\*Instrument Details are provided in Annexure-1

### Rationale

The upgrade in the ratings takes into account the consistent improvement in operating profit margins of the company over the last six quarters, resulting from favourable restructuring of its product portfolio as well as upward revision in prices received for key products from major automobile Original Equipment Manufacturers (OEMs), and the improvement in capital structure and debt coverage indicators. The ratings continue to favourably factor in the longstanding experience of the promoters in the auto ancillary industry, the established client base that includes leading domestic and international automobile OEMs, and healthy share of revenue from the replacement market and exports where margins are less volatile in nature.

The ratings, however, remain constrained by the modest growth in revenues over the past few fiscals, low profit margins compared to industry average, its moderate capital structure and debt coverage indicators. The ratings also factor in the exposure of operations to the inherent cyclicity in the automobile industry and susceptibility of margins to volatility in raw material prices and labour costs, and intense competition from domestic as well as international players.

### Outlook: Stable

ICRA believes Remsons will continue to benefit from the extensive experience of its promoters and its established relationships with its reputed clientele. The outlook may be revised to Positive if the company continues to report healthy growth in revenues and profitability, while effectively managing its working capital requirements. The outlook may be revised to Negative if cash accrual is lower than expected or if higher than anticipated debt-funded capital expenditure or stretch in working capital cycle weakens the company's liquidity.

### Key rating drivers

### Credit strengths

**Long and established track record of the promoters in the 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 promoters also have interest in group companies, Remsons Cables Industries Private Limited, Goodluck Electronics Private Limited and Krishna Industries engaged in related industries.

**Established relationships with reputed clients** – The client base of the company includes reputed automobile OEMs in the domestic and export markets. The company has been in business with these clients for over 15 to 30 years and has developed established relationships with them, which ensures significant repeat business.

**Healthy share of revenues from replacement market and exports** – Replacement market constituted ~14% of total sales of the company in H1 FY2019 (15% in FY2018), while exports constituted 15% of total sales (16% in FY2018). This shields the company from volatility in demand from key OEMs. These markets also entail higher profitability margins than domestic OEM sales, thereby supporting the cash flows of the company.

**Consistent improvement in profitability over last six quarters as a result of restructuring of product portfolio and price revisions from key OEMs** – The company's operating profit margins improved to 6.67% in H1 FY2019 compared to 6.26% in FY2018 (2.15% in FY2017), as a result of favourable restructuring of its product portfolio. The revision in prices of some key products received from major automobile OEMs as well as cost optimisation measures undertaken have also helped it contain the cost of production. The company reported profit after tax of Rs. 2.17 crore in H1 FY2019 as compared to Rs. 3.45 crore in FY2018 (net loss of Rs. 0.78 crore in FY2017). ICRA expects these measures, including price revisions, to have a positive bearing on the profitability of the company in succeeding quarters as well.

## Credit challenges

**Financial profile characterised by modest growth in revenues and low profitability margins** – The company has reported modest y-o-y revenue growth of 1–4% over FY2014-FY2017 and ~8% in FY2018. The operating margins of the company, although improved to 6.67% in H1 FY2019 over 6.26% in FY2018 and 2.15% in FY2017, continue to remain low compared to its industry peers due to its inability to adequately pass on price increases to customers in a timely manner because of intense competitive pressures. However, with recent revision in prices of key products, the effect of which has been visible from Q4 FY2018 onwards, the profitability margins are expected to improve going forward.

**Moderate capital structure and debt coverage indicators** - The company's capital structure as on September 30, 2018, remained moderate with gearing at 1.39 times, as compared to 1.47 times as on March 31, 2018. Net losses reported in FY2017 led to erosion in the net-worth of the company in FY2017, however, the same improved with profits in FY2018 and H1 FY2019. The debt coverage indicators, although improved in H1 FY2019, remained moderate as on September 30, 2018 with interest cover of 3.87 times (3.15 times in FY2018), TD/OPBDITA of 2.92 times (3.56 times as on March 31, 2018) and NCA/TD of 22% (22% as on March 31, 2018) due to low profitability.

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

**Stiff competition from organised players in the 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 bargaining power of the company to an extent.

## Liquidity position:

Remsons had external term loans of Rs. 0.78 crore on its books as on September 30, 2018 to be repaid by FY2021, for which there is annual repayment obligations of ~Rs. 0.30 crore. The utilisation of fund-based limits remained moderate with an average utilisation of 76% over the period from April, 2018 to September, 2018. The fund flows from operations remained improved in FY2018 and H1 FY2019 with improvement in the overall profitability.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	Rating is based on standalone financial statements of the issuer.

## About the company:

Remsons Industries Limited was incorporated in 1971 by the Late Mr. V. Harlalka as Remsons Cables Industries Private Limited (RCPL). RCPL took over the auto component trading business of Remsons India, a partnership concern, which was initially a proprietorship concern of Mr. V. Harlalka, in May 1984. Subsequently, RCPL was converted into a public limited company in October 1986 and renamed as 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 engaged 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.

Remsons reported a Profit After Tax (PAT) of Rs. 3.45 crore on an operating income of Rs. 128.36 crore in FY2018 as compared to a net loss of Rs. 0.78 crore on an operating income of Rs. 118.54 crore in FY2017. For H1 FY2019, the company reported PAT of Rs. 2.17 crore on an OI of Rs. 74.24 crore.

## Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	H1 FY2019 (Unaudited)
Operating Income (Rs. crore)	118.54	128.36	74.24
PAT (Rs. crore)	-0.78	3.45	2.17
OPBDIT/ OI (%)	2.15%	6.26%	6.67%
RoCE (%)	1.94%	15.58%	17.83%
Total Debt/ TNW (times)	1.69	1.47	1.39
Total Debt/ OPBDIT (times)	10.68	3.56	2.92
Interest Coverage (times)	1.11	3.15	3.87

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

**Any other information: None**

**Rating history for last three years:**

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years							
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating		Date & Rating in FY2018					Date & Rating in FY2017	Date & Rating in FY2016
				Dec-18	Aug-18	Mar-18	Sep-17	Jun-17	Aug-16	Sep-15		
1	Cash Credit	Long Term	22.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	
2	Term loans	Long Term	6.50	0.78	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	
3	Non Fund Based Limits	Short Term	0.70		[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	

**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](http://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	-	-	-	22.00	[ICRA]BBB-(Stable)
NA	Term loan	March-2016	-	March-2021	1.50	[ICRA]BBB-(Stable)
NA	Term loan*	-	-	-	5.00	[ICRA]BBB-(Stable)
NA	Letter of Credit	-	-	-	0.50	[ICRA]A3
NA	Bank Guarantee	-	-	-	0.20	[ICRA]A3

\* yet to be availed

Source: Remsons

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