January 31, 2020

Classic Industries and Exports Ltd. (Erstwhile Classic Auto Tubes Limited): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund-based limits	6.25	0.00	-
Long term: Term Loan	51.00	10.00	[ICRA]A- (Stable); Reaffirmed
Long term: Unallocated limits	27.82	0.00	-
Short term: Fund-based limits	0.75	0.00	-
Short term: Non-fund based limits	10.00	10.00	[ICRA]A2+; Reaffirmed
Total	**95.82**	**20.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation reflects Classic Industries and Exports Ltd.'s (CIEL's) strong operational synergies and business position as a captive supplier of tyre moulds, tubes and tyre building machines (TBM) to its group company, Apollo Tyres Limited (ATL), a leading tyre manufacturer with strong presence in the truck and bus tyre segment.

The rating also factors in the company's comfortable financial profile as characterised by healthy profitability indicators, strong credit metrics and surplus cash and liquid investments (Rs. 75.6 crore as on March 31, 2019). Supported by the scheduled repayment of the term loans, coupled with healthy accretion to reserves, the capitalisation and coverage indicators of the company continue to remain at healthy levels; with gearing ratio at 0.1 time (PY: 0.1 time) and DSCR at 5.1 time (PY: 5.8 time) in FY2019. The interest coverage ratio improved to 25.9 times in FY2019 (PY: 17.8) backed by lower interest cost. As on March 31, 2019, NCA/Total Debt improved to 264% (PY: 181%) and Total Debt/OPBITDA to 0.3 time (PY: 0.4 time). Going forward, the company has no major capex plans and, hence, the credit profile is likely to remain comfortable.

These strengths are, however, partially offset by the high customer concentration, as most of the company's sales are to a single customer. Nonetheless, the strong market position of its customer in the Indian tyre industry mitigates this risk to a certain extent.

ICRA notes that CIEL's revenue witnessed a sharp increase in FY2019 subsequent to the change in accounting practice (of tubes and bladder sales from job work basis to actual revenue and cost basis). ICRA believes the company's revenues are expected to remain at similar levels in FY2020, despite the slowdown in the domestic automotive industry, primarily driven by higher sales of TBM for ATL's upcoming plant in Andhra Pradesh. ICRA also notes favourably the management's intent to expand presence outside the group companies over the medium term.

During FY2019, CIEL invested Rs. 10.7 crore in its Group companies, primarily consisting of Rs. 0.7 crore investment in CATL Singapore Pte Ltd. (100% subsidiary) and Rs. 10.0 crore in Premedium Pharmaceuticals Private Limited (100% subsidiary). While the management has guided that further investments in these companies is likely to remain limited to

Rs. 10-15 crore over a three-year period and CIEL continues to generate healthy cash flow from its operations, any major cash outflow to support its promoter group companies may impact CIEL's credit profile and the same remains a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that CIEL would continue to have steady business from its key customer ATL given the promoter linkages while adding new customers over the medium term. Also, the Stable outlook reflects ICRA's belief that the company would continue to have comfortable credit profile.

Key rating drivers and their description

Credit strengths

Steady business from promoter Group's flagship company, ATL, provides revenue visibility – CIEL has strong operational synergies with the Group's flagship company, ATL, being a captive supplier of tyre moulds and TBM, as well as a manufacturer of rubber compounds, tubes and bladders. The company caters to almost 80-85% of ATL's tube requirements from its Pune plant. In addition, it is an exclusive supplier of TBM to ATL, a relatively high profitable segment.

Moderately diversified product mix – Traditionally the company was dependent largely on manufacturing tubes and bladders for its Group company contributing more than 80% of sales revenue. Through the addition of its rubber mixing capacity at Kochi in FY2011 as well as tyre mould and machine manufacturing capacity at Chennai in FY2012, the company improved its product diversification. Over FY2016-FY2018, the company expanded its tyre mould and machine manufacturing capacity at Chennai such that its dependence on tube and bladder manufacturing declined to 50% in FY2018. Subsequently, due to the change in accounting practice (of tubes and bladder sales from job work basis to actual revenue and cost basis), the company's revenues from this segment witnessed a sharp increase and drove 70% of the net sales in FY2019.

Comfortable financial profile with healthy profitability indicators, strong credit metrics and surplus cash and liquid investment – Supported by the scheduled repayment of the term loans, coupled with healthy accretion to reserves, the capitalisation and coverage indicators of the company continue to remain at healthy levels; with gearing ratio at 0.1 time (PY: 0.1 time) and DSCR at 5.1 time (PY: 5.8 time) in FY2019. Furthermore, considering the healthy cash balances (Rs. 75.6 crore as on March 31, 2019) and investments[1] (Rs. 368.5 crore as on March 31, 2019), the financial profile of the company remains robust. Going forward, the company has no major capex plans and, hence, the credit profile is likely to remain comfortable.

Credit challenges

High customer concentration risk with ATL being the single largest customer; established relationship and high share of business mitigate risk to an extent– Currently CIEL operates like a captive unit of ATL catering to nearly 80-85% of its

[1] *Includes investments in equity shares of ATL (Rs. 345.8 crore, 2.71% of ATL's total shareholding) and investments in Sunrays Global Consultants LLP (Rs. 12.0 crore), CATL Singapore Pte Ltd. (Rs. 0.7 crore) and Premedium Pharmaceuticals (Rs. 10.0 crore).*

requirement of tubes and 25-50% of rubber compounds, tyre moulds and TBM requirement. The customer concentration risk is partly mitigated by ATL's strong market position in the domestic tyres market, as well as common promoters. ICRA also notes that the management is focusing on increasing its exposure outside the Group over the medium term.

Support to Group companies may constrain financial position – CIEL has a track record of providing corporate guarantees, loans and advances to group companies. During FY2019, CIEL invested Rs. 10.7 crore in its group companies, primarily consisting of Rs. 0.7 crore investment in CATL Singapore Pte Ltd. (100% subsidiary) and Rs. 10.0 crore in Premedium Pharmaceuticals Private Limited (100% subsidiary). Though CIEL is generating healthy cash flow from its operations, any large support to its promoter group companies, in the form of investments, loans and advances or corporate guarantees, might constrain its financial position and would remain a key monitorable.

Liquidity position: Adequate

CIEL's liquidity remains adequate, with expectation of cash flow generation of Rs. 17-20 crore in FY2020, cash and bank balances of Rs. 73 crore as on September 30, 2019 and average undrawn working capital limits of Rs. 3.8 crore as against the sanctioned limit of Rs. 6.3 crore in the 10-month period ending in December 2019. In relation to these sources of cash, CIEL has minimal capex plans and its total debt repayments of Rs. 23.8 crore over the medium term also remain moderate. Overall, ICRA expects CIEL to be able to meet its near-term commitments through internal sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – The company's ability to scale up its business and to diversify its business profile by securing new business from customers other than ATL while maintaining its profitability indicators will be considered favourably for a rating upgrade.

Negative triggers – Negative pressure on the rating could arise in case of weakening of financial risk profile due to any large debt addition or pressure on the profitability margins. Also, any considerable support to its promoter group companies, in the form of investments, loans and advances or corporate guarantees, might constrain its financial position and the same remains a key rating sensitivity.

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	The rating for CIEL is based on the standalone financials.

About the company

CIEL is engaged in manufacturing and marketing 'Automotive Butyl' tubes, mixing rubber compounds and manufacturing moulds and TBM. The company has three manufacturing units, one each at Pune (tube and bladder plant), Kochi (mixing plant) and Chennai (mould and TBM plant).

CIEL is a part of the Apollo Group, whose flagship company is ATL, a leading Indian tyre manufacturer. Sunrays Properties and Investment Company Private Limited (part of Neeraj Kanwar promoter group) is the majority shareholder (99.94%) of CIEL and is one of the primary shareholders of ATL with a 6.35% stake as on December 31, 2019. CIEL owns 2.71% stake in ATL valued at Rs. 275.5 crore as on January 24, 2020.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	246.4	515.3
PAT (Rs. crore)	46.8	52.1
OPBDIT/OI (%)	34.1%	15.3%
RoCE (%)	12.9%	12.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6
Total Debt/OPBDIT (times)	0.4	0.3
Interest Coverage (times)	17.8	25.9
DSCR	5.8	5.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019	FY2018	FY2017
					31-Jan-2020	27-Jul-2018	02-May-2017	01-Apr-2016
1	Fund-based limits	Long Term	0.00	NA	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long Term	10.00	9.80	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Unallocated limits	Long Term	0.00	NA	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Fund-based limits	Short Term	0.00	NA	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
5	Non-fund based limits	Short Term	10.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

*Amount in Rs. crore; *As on December 31, 2019*

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term: Term Loan	FY2016	SBI Base Rate + 2.30%	FY2021	10.00	[ICRA]A-(Stable)
NA	Short term: Non-fund based limits	NA	NA	NA	10.00	[ICRA]A2+

Source: Classic Industries and Exports Ltd.

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

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Arushi
+91 124 4545 396
arushi@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999