

April 07, 2020

## Remsons Industries Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                        | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                      |
|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| Long-term: Fund based -Cash Credit | 22.00                                | 22.00                               | [ICRA]BBB- (Stable);<br>reaffirmed |
| Long-term: Fund based – Term Loan  | 6.50                                 | 6.50                                | [ICRA]BBB- (Stable);<br>reaffirmed |
| Short-term: Non-Fund based Limits  | 0.70                                 | 0.70                                | [ICRA]A3; reaffirmed               |
| <b>Total</b>                       | <b>29.20</b>                         | <b>29.20</b>                        |                                    |

### Rationale

The reaffirmation in ratings of Remsons Industries Limited's(RIL) continue to favourably factor in the longstanding experience of the promoters in the auto ancillary industry and the established client base that includes leading domestic and international automobile OEMs. Further, the ratings also take note of healthy share of revenue from the replacement market and exports which shielded RIL's revenue against slowdown in domestic market in the recent past. ICRA also takes note of RIL's above-average financial risk profile characterised by adequate liquidity position, moderately leveraged capital structure and above-average debt coverage indicators.

The ratings, however, are constrained by the moderate operating profitability compared to industry average. 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.

Further, ICRA, notes that the rapid and widening spread of the coronavirus outbreak which is resulting in a deterioration in the global economic outlook, is expected to create severe stress across sectors, regions and markets. The auto industry is expected to be one of the most significantly affected sectors, given its sensitivity to consumer demand and sentiment, as well as the labour-intensive nature of operations. Against this backdrop and given the extremely high level of uncertainty of the present situation, ICRA will continue to monitor the developments, and may reassess the credit profile, if warranted. In the near term, ICRA expects RIL's liquidity position to be adequate to meet its fixed expenses as well as debt obligations, supported by some cushion in working capital limits as well as liquid investments.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters and its established relationships with its reputed clientele. Further, the Stable outlook also reflects RIL's near-term liquidity will remain adequate to take care of fixed expenses as well as debt servicing requirements, despite operational disruptions being faced. A prolonged impact of Covid-19, however, which creates a sustained pressure on the company's liquidity profile and exposes it to heightened operating and financial risks such as order cancellations, payment delays, bad debts and inventory obsolescence may warrant a review of the assigned rating. ICRA will continue to monitor the developments in this regard and its implications on the company's performance and credit profile

## 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 such as Hero Moto Corp Ltd., Ashok Leyland Ltd., Force Motors Limited etc, Mahindra & Mahindra, Maruti Suzuki, Tata Motors Ltd, Piaggio etc. The company has been in business with these clients for over 15 to 30 years. The established relationship with customers and limited churning in the customer base, has ensured significant repeat business.

**Healthy improvement in revenue and profitability in FY2020:** RIL's revenue grew by ~16% to Rs. 149.37 crore in FY2019 from Rs. 128.36 crore in FY2018 due to healthy order inflows from existing customers. The revenue continued to witness a sustained improvement in current fiscal as evident from revenue of Rs. 152.53 crore till February 2020 as supported by higher sales in export and replacement market. The weakening of Euro and SAP teething issue marginally moderated margins (OPM) by ~30 bps (basis points) to 5.91% in FY2019. However, the management's various cost optimisation measures along with higher sales in export market elevated OPM to 7.81% in H1FY2020. RIL is expected to report revenue of ~Rs. 160-165 crore and operating margins of ~7-7.50% in FY2020.

**Above-average financial risk profile** - The company's capital structure as on September 30, 2019, remained moderate with gearing at 1.34 times, as compared to 1.23 times as on March 31, 2019. Healthy addition of profits over FY2018 and FY2019, strengthened net-worth base to Rs. 21.74 crore in FY2019 from Rs. 16.16 crore in FY2017. The debt coverage indicators, although improved in H1FY2020, remained above-average as on September 30, 2019 with interest cover of 4.05 times (3.15 times in FY2019), TD/OPBDITA of 2.57 times (3.03 times as on March 31, 2019) and NCA/TD of 26% (22% as on March 31, 2019) due to low profitability.

## Credit challenges

**Profit margins remain susceptible to volatility in raw material prices** - 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: Adequate

RIL's liquidity position stood adequate with the low annual debt repayment obligations of ~Rs. 0.48 crore against estimated cash accruals of Rs. 6-7 crore over FY20-21. The company also draws comfort from the availability of liquidity cushion in terms of working capital limit (undrawn limit of Rs. 8.35 crore as on Feb 29, 2020). Albeit, the recent

shutdown of operation following orders of The Government of India (GoI) to combat COVID-19, can impact its liquidity position in case of delay in payment from key customers.

## Rating sensitivities

### Positive triggers:

- ICRA could upgrade the rating if the company demonstrates a sustained improvement in its scale of operations while maintaining its profitability and working capital intensity.

### Negative triggers:

- Substantial decline in scale of operations or profitability erosion either due to either a prolonged slowdown in demand or adverse impact over operations from COVID-19.
- Any large debt funded capex adversely impacting the capital structure or stretch in receivables deteriorating in the liquidity profile of the company.

## Analytical approach

| Analytical Approach                             | Comments                                                                                                               |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <a href="#">Applicable Rating Methodologies</a> | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Auto Component Suppliers</a> |
| Parent/Group Support                            | Not applicable                                                                                                         |
| Consolidation/Standalone                        | The assigned ratings are based on the issuer's standalone financial statements                                         |

## 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.

## Key financial indicators (audited)

|                              | FY2018 | FY2019 | H1FY2020<br>(Unaudited) |
|------------------------------|--------|--------|-------------------------|
| Operating Income (Rs. crore) | 128.36 | 149.37 | 77.00                   |
| PAT (Rs. crore)              | 3.45   | 3.44   | 2.52                    |
| OPBDITA/OI (%)               | 6.26%  | 5.91%  | 7.81%                   |
| ROCE (%)                     | 15.58% | 14.96% | 18.92%                  |
| Total Debt/TNW (times)       | 1.47   | 1.23   | 1.34                    |
| Total Debt/OPBDITA (times)   | 3.56   | 3.03   | 2.57                    |
| Interest Coverage (times)    | 3.15   | 4.05   | 4.55                    |
| DSCR                         | 2.86   | 2.96   | 3.47                    |

Source :RIL financials and ICRA research

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

## Any other information: None

## Rating history for last three years

All figures in Rs. Crore

|   | Instrument               | Current Rating (FY2020) |                 |                       |                     | Rating History for the Past 3 Years |                         |                       |
|---|--------------------------|-------------------------|-----------------|-----------------------|---------------------|-------------------------------------|-------------------------|-----------------------|
|   |                          | Type                    | Amount<br>Rated | Amount<br>Outstanding | Rating              | FY2019                              | FY2019                  | FY2018                |
|   |                          |                         |                 |                       | 07-Apr-2020         | 06-Dec-18                           | 01-Aug-18               | 28-Mar-18             |
| 1 | Cash Credit              | Long<br>Term            | 22.00           | -                     | [ICRA]BBB- (Stable) | [ICRA]BBB-<br>(Stable)              | [ICRA]BB+<br>(Positive) | [ICRA]BB+<br>(Stable) |
| 2 | Term Loan                | Long<br>Term            | 6.50            | 0.60^                 | [ICRA]BBB- (Stable) | [ICRA]BBB-<br>(Stable)              | [ICRA]BB+<br>(Positive) | [ICRA]BB+<br>(Stable) |
| 3 | Non Fund<br>Based Limits | Short<br>Term           | 0.70            | 0.00                  | [ICRA]A3            | [ICRA]A3                            | [ICRA] A4+              | [ICRA]A4+             |

^Outstanding as September 30, 2019; Source: RIL financials

## 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        | Mar-16                      | -           | Mar-21        | 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                   |

Source: Remsons Industries Limited

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## About ICRA Limited:

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