May 13, 2020 Revised

Subros Limited: Rating withdrawn for NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	23.50	23.50	[ICRA]AA-(Stable); Outstanding
Non-fund Based - Working Capital Facilities	115.00	115.00	[ICRA]A1+; Outstanding
Fund-based - Working Capital Facilities	40.00	40.00	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Fund-based/ Non-fund Based - Working Capital Facilities	125.00	125.00	[ICRA]AA-(Stable)/[ICRA]A1+; Outstanding
Total Bank Facilities	**303.50**	**303.50**	
Commercial Paper Programme	75.00	75.00	[ICRA]A1+; Outstanding
NCD Programme	50.00	0.00	[ICRA]AA-(Stable); Withdrawn

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to the non-convertible debenture (NCD) programme of Subros Limited (Subros) is withdrawn in accordance with ICRA's policy on withdrawal and suspension. The rating has been withdrawn as there is no amount outstanding against the rated instruments; ICRA does not have information to suggest that the credit risk has changed since the time the rating was last reviewed.

Please refer to the previous detailed rating rationale on the following link: Click here

Key rating drivers and their description

Credit strengths

Strong market share in thermal products segment for PV industry; ramp up in supplies for other business to aid segment diversification - Subros is a leading automotive AC manufacturer in the domestic market. Despite intense competition in the segment, it has successfully maintained a strong market position (an estimated market share of ~45% 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 Denso Corporation). The company's revenue-mix over the years 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 and the Indian Railways. Although the PV segment is likely to remain the mainstay of the company's business prospects, its dependence is expected to reduce over the medium term as supplies for the 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, has enabled it to sustain a strong market position over the years. Its strong parentage (SMC and Denso

Corporation hold ~12% and ~20% equity stakes, respectively) has also helped it to maintain strong business relations with its primary customer, MSIL, while aiding in establishing relationships with new customers.

Healthy financial risk profile, aided by infusion of equity through preferential share issue to Denso Corporation - Subros received an infusion of Rs. 209.88 crore from the issue of equity shares on preferential basis to Denso Corporation, Japan, in December 2018. The company utilised the equity proceeds for part repayment of its debt and creditors, and continues to maintain healthy cash and bank balances. The financial risk profile of the entity has improved significantly post the equity infusion, characterised by a conservative capital structure (gearing of 0.4 time as of March 31, 2019) and strong debt coverage indicators (Total Debt/OPBDITA of 1.1 times, interest coverage of 6.9 times and NCA/Total Debt of 65.9% in FY2019). The TOL/TNW, also remains at moderate levels of 1.0 time, despite the significant creditors on the company's balance sheet.

Credit challenges

High client and segment concentration risks with MSIL driving ~75% of the company's sales - The company remains exposed to increased customer concentration risk with sales to MSIL accounting for ~75% (including indirect sales) of total revenues in H1 FY2020. 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's strong share of business across various model programmes of the OEM. Subros also remains focussed on reducing its segment and client concentration risk through business gains from new segments, such as CVs, home ACs and the railways.

Weak demand outlook for the segments catered (in view of weak macro environment and Covid-19 pandemic impact) likely to lead to moderation in profitability and return indicators - Subros's operating profitability had remained at stable levels of 10.5–11.0% over the past few years, aided by its efforts to increase its localisation levels for improving operational efficiency. The company's operating profitability in FY2020 was expected to moderate from FY2019 levels (10.8%), led by a decline in operating leverage as well as a change in product mix (with higher share from the home AC segment, which entails lower margins). The company's net profits in FY2020 remain supported by an extraordinary profit of Rs. 41.3 crore from the full and final settlement of its insurance claim for the fire accident at its Manesar plant (2016). An expectation of moderation in profitability in view of a weak demand outlook for its end-user automotive segment (with the global pandemic and ensuing nationwide lockdown likely to lead to a relatively prolonged period of curtailed automotive demand), is likely to cause a moderation in the company's return indicators and leverage/debt coverage indicators over the short-term. The company's operating profitability and return indicators are, however, expected to benefit over the medium term from improvement in scale of operations, measures to rationalise costs as well as increased localisation.

Liquidity position: Strong

The liquidity position of the entity remains strong, supported by sizeable cash and bank balances (~Rs. 85.75 of fixed deposits as of March 31, 2020) and moderate utilisation of working capital facilities. Even as the ongoing lockdown in response to the global coronavirus outbreak is expected to impact cash flows over the short-term, the entity continues to have sufficient liquidity to meet its debt repayments (~Rs. 30.4 crore in FY2021) and fixed overheads. The entity is also likely to lower its earlier planned capex of ~Rs. 50-60 crore in FY2021.

Rating sensitivities

Positive triggers – Given the ongoing weakness in the macro environment and automotive demand, a rating upgrade in the near term remains unlikely. A sustained improvement in the company's operational profile through material diversification of its customer and automotive segment mix could trigger a rating upgrade over the medium term. A healthier-than-expected improvement in RoCE to over 20% on a sustained basis would be favourably considered for an upward rating revision.

Negative triggers – A rating downgrade could be triggered if the weakness in demand in the automotive industry, specifically passenger vehicles, because of the ongoing pandemic is more prolonged than currently expected, consequently impacting the company's return and debt coverage indicators. Specific credit metrics that could result in a downgrade include Debt/OPBDITA greater than 2.0 times on a sustained basis or enhanced dependence on short-term borrowings/creditors leading to TOL/TNW weakening above 1.0 time on a sustained basis. A significant deterioration in the company's operational profile led by a decline in share of business (SOB) with key OEMs, especially MSIL, could also lead to a downward revision in ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers ICRA Policy on Withdrawal and Suspension of Credit Rating
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, 2019, the company had a subsidiary and a JV, which are enlisted in Annexure-2.

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 solely providing cooling solutions for the PV segment, over the years it has gradually expanded its product portfolio to include thermal systems for homes, buses, truck cabin and railway driver cabins.

The company's manufacturing plants at Noida (Uttar Pradesh), Manesar (Haryana), Pune (Maharashtra), Chennai, Sanand (Gujarat) and Karsanpura (Gujarat) have an annual production capacity of ~2.0 million AC kits. Subros has a technological agreement with Denso Corporation, Japan, a leading automotive manufacturer in the global market. Denso Corporation currently also owns a 20% ownership interest in Subros. Suzuki Motor Corporation (SMC), Japan, also holds a ~12% share in the listed entity, with ~36.8% being held by the Suri family.

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	1,912.9	2,124.5
PAT (Rs. crore)	60.6	76.2
OPBDIT/OI (%)	11.0%	10.8%
RoCE (%)	18.7%	20.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.0
Total Debt/OPBDIT (times)	1.8	1.1
Interest Coverage (times)	5.1	5.4
DSCR	1.7	1.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 13-May-20	Date & Rating 24-Apr-20	Date & Rating in FY2020 24-Jan-20	Date & Rating in FY2019 19-Dec-18	Date & Rating in FY2018 22-Dec-17	19-May-17
1	Fund-based -Term Loan	Long Term	23.50	**23.50**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**
2	Non-fund Based - Working Capital Facilities	Short Term	115.00	**-**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3	Fund-based - Working Capital Facilities	Long Term/ Short Term	40.00	**-**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**-**	**-**	**-**
4	Fund-based/ Non-fund Based - Working Capital Facilities	Long Term/ Short Term	125.00	**-**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**-**	**-**	**-**
5	Fund-based - Working Capital Facilities	Long Term	-	**-**	**-**	**-**	**-**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**
6	Non-fund Based - Working Capital Facilities	Long Term	-	**-**	**-**	**-**	**-**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**
7	Fund-based - Working Capital Facilities	Short Term	-	**-**	**-**	**-**	**-**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
8	Unallocated Limits	Long Term/ Short Term	-	**-**	**-**	**-**	**-**	**-**	**[ICRA]A+ (Positive)/ [ICRA]A1+**	**[ICRA]A+ (Stable)/ [ICRA]A1+**
9	Commercial Paper Programme	Short Term	75.00	**25.00**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
10	NCD Programme	Long Term	0.00*	**-**	**[ICRA]AA- (Stable); withdrawn**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**

**Rating withdrawn for Rs. 50 crore NCD programme rated earlier*

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

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	Term Loan	Jan 2018	-	Feb 2023	23.50	[ICRA]AA-(Stable)
NA	Non-fund Based - Working Capital Facilities	-	-	-	115.00	[ICRA]A1+
NA	Fund-based - Working Capital Facilities	-	-	-	40.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Fund-based/ Non-fund Based - Working Capital Facilities	-	-	-	125.00	[ICRA]AA-(Stable)/ [ICRA]A1+
INE287B14974	Commercial Paper	Feb 2020	-	May 2020	25.00	[ICRA]A1+
-	Commercial Paper	Yet to be placed			50.00	[ICRA]A1+
INE287B07010	NCD Program	Aug 2017	-	April 2020	0.00	[ICRA]AA-(Stable); withdrawn

Source: Subros Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Thai Subros Limited	100.00%	Full Consolidation
Denso Subros Thermal Engineering Centre India Limited	26.00%	Equity Method

Corrigendum

Document dated May 13, 2020 has been corrected with revision as detailed below:

a) Reference to ICRA Policy on Withdrawal and Suspension of Credit Rating added in Applicable Rating Methodologies under Analytical Approach section

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