November 27, 2020

Bharat Seats Limited: Ratings reaffirmed; outlook revised to Stable from Negative, 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	35.20	35.20	[ICRA]A-(Stable) reaffirmed; outlook revised to Stable from Negative
Long-term: Fund-based - Term Loans	5.56	28.56	[ICRA]A- (Stable) reaffirmed and assigned to enhanced limits; outlook revised to Stable from Negative
Short-term: Non-fund Based	20.00	20.00	[ICRA]A2+; reaffirmed
Total	**60.76**	**83.76**	

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision factors in the expectations of an improved operating performance of Bharat Seats Limited (BSL) over the near to medium term with the company's revenue and profitability likely to recover owing to improved demand in the passenger vehicle (PV) industry. Since the disruption caused by the pandemic-induced lockdown in April and May 2020, there has been a sequential recovery in PV wholesale dispatches with the industry registering growth sequentially as well as on a YoY basis on account of pent-up demand, preference for personal mobility, inventory filling at dealerships and the low base of previous year. With Maruti Suzuki India Limited (MSIL), its major customer, witnessing healthy recovery in car sales, BSL's volumes are likely to witness growth going forward.

ICRA notes that the company's share of business for supplies of car seats to MSIL had been declining over the past few years on account of the subdued performance of the models catered by BSL, as well as due to loss of some business to competition. While the weaker performance of models catered by BSL has resulted in further reduction in the share of business in the current fiscal, there has been no incremental loss of business for the company in the recent months. Moreover, it has recently secured business for a new model of MSIL expected to start production in CY2021. In line with this, ICRA expects the company's share of business to improve gradually over the near-to-medium term, aided by new business awards. ICRA favourably factors in the completion of the Memorandum of Family Settlements (MOFS)[1] in October 2020, which is likely to allow streamlining of operations, given BSL's dependence on its Group company (Sharda Motor Industries Limited or SMIL) for seat frames, and allow the company to be cost competitive.

[1]*BSL's promoters had entered into a MOFS on February 22, 2019 in order to delink the operations of BSL and SMIL. The same was completed in October 2020. As part of this, Mr. Ajay Relan and Ms. Sharda Relan are no longer directors of BSL and their shareholding is now held by Mr. Rohit Relan and family either directly or through NDR Auto Components Ltd. The latter now also holds the seating division of SMIL.*

The ratings factor in BSL's favourable ownership structure with Suzuki Motor Company (SMC) and MSIL with a combined equity stake of 29.6%, as well as its established relationship with MSIL. The growing contribution of seat supplies to Suzuki Motorcycle India Private Limited (SMIPL) in BSL's total revenues (7.1% in FY2020 from 4.7% in FY2019) and the latter's status as a sole supplier of two-wheeler seats, along with frames to the former, provides some diversification benefit. Despite the decline in volumes in FY2020 and H1 FY2021, BSL's margins are supported by cost efficiency measures as well as backward integration and realignment of vendor base undertaken by the company since FY2018.

Even as the company maintains a conservative capital structure, the financial profile is characterised by high reliance on creditors for funding its business as reflected by lower current ratio (0.7 times in FY2020). However, the same is mitigated to an extent by availability of undrawn limits (Rs. 13.6 crore of undrawn term loan and Rs. 20.4 crore of unutilised fund-based working capital limits in August 2020), limited debt repayments and healthy relationship with its suppliers. BSL faces client concentration risk as ~84% of its revenue is generated from MSIL. However, the same is mitigated on account of BSL's ownership pattern and MSIL's status as a market leader in the PV industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that BSL will continue to benefit from its established relationship with MSIL, favourable ownership and healthy financial risk profile. Moreover, efforts towards backward integration are likely to result in cost efficiencies, thereby increasing BSL's competitiveness.

Key rating drivers and their description

Credit strengths

Well-established relationship with MSIL – BSL has an established relationship with MSIL and is one of the two suppliers of car seat sets for the latter. Despite some loss of business in the recent years, BSL continues to be the sole supplier for seat sets for several key models of MSIL. Moreover, the company manufactures carpet sets for some of the models.

Favourable ownership with MSIL and SMC having stake besides benefits of technical collaboration – BSL has been promoted by the Relan family and by its key OEMs – MSIL and SMC, which together have a combined stake of 29.6% in BSL. Moreover, it has technical collaboration agreements with Toyo Seats Co. Ltd. for seats and with INOAC Corporation for roof moulding and windshield components. This has resulted in healthy share of business with MSIL for the company over the years.

Status as sole supplier of two-wheeler seats and frames to SMIPL providing diversification benefits – BSL remains the sole supplier of 2W seats and frames for all the models of SMIPL. The company witnessed a marginal volume contraction of 0.8% and revenue contraction of 0.5% from the sale of two-wheeler seat assemblies to SMIPL in FY2020. This was primarily driven by healthy volumes of SMIPL even as the overall two-wheeler industry witnessed contraction. As the revenue share from this segment in BSL's overall revenue pie increases, it is likely to provide greater diversification benefits.

Credit challenges

High client concentration risk with around 84% of revenues generated from MSIL – MSIL accounted for ~84% of BSL's revenue in FY2020. This exposes the company to high customer concentration risk with its revenue prospects primarily remaining linked to MSIL's volumes. However, the same is partially mitigated by the company's healthy share of business with MSIL and its favourable ownership pattern, wherein MSIL and SMC hold a combined stake of 29.6%. Additionally, the leadership position of MSIL helps in mitigating the risk to an extent.

Declining share of business – At present, BSL is one of the two major seat set suppliers to MSIL. Over the years, it has enjoyed a share of business with MSIL of close to 40% with the remaining going to the competitor. However, in the recent years, the company's competitor has won the award for supplying seat sets to most of the new models of MSIL and this, along with lower sales of the models catered by BSL, led to its share of business with MSIL declining to below 30%. However, with increased competitiveness brought about by backward integration, ICRA expects BSL to regain some of its lost share of business over the near-to-medium term.

High reliance on creditors posing refinancing risk; risk partially mitigated by availability of buffer, low leverage and strong relationship with suppliers – The company places high reliance on creditors for funding its business. However, the associated risk of asset liability mismatch is mitigated by the availability of buffer in terms of undrawn term loans (Rs. 13.6 crore as on September 30, 2020) as well as low working capital utilisation (average utilisation being 28% for the 12-month period ending in August 2020), limited debt repayments and healthy relationship with its suppliers.

Liquidity position: Adequate

BSL's liquidity profile is **adequate** supported by low fund-based working capital utilisation (average utilisation being 28% for the 12-month period ending in August 2020) and limited debt repayments (Rs. 6.3 crore in FY2021 and Rs. 3.8 crore per annum during FY2022-FY2024). While it reported cash losses of Rs. 1.8 crore in H1 FY2021, the impact of the same was moderated by the company availing Rs. 15-crore term loan. With volumes recovering post Q1 FY2021, BSL generated positive cash flow in Q2 FY2021 and this is likely to continue going forward. Besides this, it has Rs. 13.6-crore of undrawn term loan, which provides buffer.

Rating sensitivities

Positive triggers – A sustained improvement in BSL's share of business with MSIL or diversification of clientele through new business awards leading to an improved scale of operations could result in a positive rating action. ICRA would also consider favourably an improvement in profitability indicators, aided by cost efficiency and backward integration measures, such that the company is able to generate RoCE above 18% on a sustained basis.

Negative triggers – Further loss of business with MSIL or a sustained weakness in PV industry could result in reduced scale of operations and weak cash accruals for BSL and result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Incorporated in 1986, Bharat Seats Limited (BSL) is a joint-venture (JV) between the Indian promoters (Relan Group), Maruti Suzuki India Limited (MSIL) and Suzuki Motors Corporation (SMC) involved in manufacturing of cars seats for MSIL. Subsequently, from FY2006 onwards, BSL diversified its operations to manufacture moulded floor carpets for MSIL and two-wheeler seats for Suzuki Motorcycle India Private Limited (SMIPL). At present, the company has manufacturing facilities located at Gurgaon (Haryana), Manesar (Haryana) and Borakalan (Haryana). Further, it is in the process of setting up another facility in Surendra Nagar (Gujarat), expected to be operational by April 2021.

BSL is promoted by Mr. Rohit Relan and his family. At present, Mr. Relan is the Chairman and Managing Director. He is a chartered accountant and has done President Management Programme from Harvard Business School. The Relan Group has recently gone through a family restructuring, as a result of which BSL's shareholding now resides with Mr. Rohit Relan and family.

In FY2020, the company derived 82% of revenues from car seat assembly division, 7% from motorcycle seat division and the rest from other division such as hoods for seats (for Gypsy model) and carpet sets for cars, etc. The company's revenue is generated entirely from the domestic market.

Key financial indicators (audited)

	FY2019	FY2020*
Operating Income (Rs. crore)	907.5	589.8
PAT (Rs. crore)	21.4	12.5
OPBDIT/OI (%)	6.0%	6.3%
PAT/OI (%)	2.4%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.1
Total Debt/OPBDIT (times)	0.5	1.1
Interest Coverage (times)	18.0	11.5

**In line with Ind AS-116 accounting, debt for FY2020 includes operating lease liabilities as well*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020		FY2019		FY2018	
					27-Nov-2020	30-Aug-2019	8-Aug-2019	11-Mar-2019	8-Jun-2018	10-Aug-2017	28-Jul-2017
1	Fund Based- Cash Credit	Long Term	35.20	NA	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Fund Based- Term Loans	Long Term	28.56	14.1	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
3	Non-Fund Based	Short Term	20.00	NA	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

*Amount in Rs. crore; *As on September 30, 2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	35.20	[ICRA]A- (Stable)
NA	Term Loan	29-May-2020	NA	28-May-2024	28.56	[ICRA]A- (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	20.00	[ICRA]A2+

Source: BSL

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

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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.

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