February 26, 2021 Revised

Subros Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	23.50	36.00	[ICRA]AA-(Stable); Reaffirmed
Non-fund Based - Working Capital Facilities	115.00	95.00	[ICRA]A1+; Reaffirmed
Fund-based - Working Capital Facilities	40.00	30.00	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Fund-based/ Non-fund Based – Working Capital Facilities	125.00	125.00	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Unallocated Facilities	0.00	17.50	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Total Bank Facilities	**303.50**	**303.50**	
Commercial Paper Programme	75.00	75.00	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the strong market position of Subros Limited (Subros) in the thermal products segment of the passenger vehicle (PV) industry, benefitting from its integrated manufacturing operations and strong product development capabilities (supported by technical support from Denso Corporation). Even as the company's scale of operations was significantly impacted in Q1 FY2021 by the enforced lockdowns, its revenues have improved sequentially over the past couple of quarters post the relaxation in lockdowns, aided by the demand recovery in the PV industry. The company reported a ~30% growth in revenues in Q3 FY2021 (YoY basis), with its key market (automotive sector) reporting a significant improvement. The medium term prospects for the company remain healthy, with an enhanced contribution from other business segments (commercial vehicles (CVs), railways and home air conditioner (AC) segments) expected to aid diversification and support revenue growth (expected CAGR of 12-14% over the medium term).

The rating reaffirmation also favourably factors in Subros' healthy financial risk profile, characterised by conservative capital structure, strong debt coverage indicators (Total Debt/OPBDITA of 0.8 time, interest coverage of 5.3 times and NCA/Total Debt of 117% in FY2020) and a strong liquidity profile (cash and bank balances of ~Rs. 85.7 crore as of December 31, 2020). Even as a near washout in Q1 FY2021 is likely to lead to some moderation in operating profitability in the current fiscal, the company's profitability indicators are expected to remain healthy aided by various operational efficiency measures undertaken. ICRA expects its operating margins and return indicators to gradually improve over the medium term benefitting from economies of scale, measures to rationalise costs as well as increased localisation.

The company's business profile is characterised by high customer concentration risk with sales to Maruti Suzuki India Limited (MSIL; including indirect sales) accounting for ~80% of the revenues in FY2020. Although the company faces customer and segment concentration risks, they are mitigated to an extent by its strong share of business with MSIL and the OEM's market leadership in the PV segment. Moreover, business gains from new segments are also expected to lead to some moderation in the segment and client concentration risk, going forward.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's revenue and earnings growth will remain at stable levels over the medium term, supported by continued business awards from MSIL and diversification into new segments, which currently contribute ~10-12% to its turnover. ICRA expects the company to continue to maintain a conservative financial risk profile, reflected by its limited incremental dependence on external borrowings.

ICRA notes that the proceeds from the rated commercial paper programme are intended to be utilised for funding the company's working capital requirements, as per the objects of the issue. Any deviation from the above, which has the effect of exerting pressure on the asset liability position of the company, would be a rating sensitivity.

Key rating drivers and their description

Credit strengths

Strong market share in thermal products segment for PV industry; ramp up in supplies for other businesses to aid sector diversification over medium term - Subros is a leading automotive AC manufacturer in the domestic market. Despite intense competition in the sector, it has successfully maintained a strong market position (an estimated market share of ~44% 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 one of its key shareholders, Denso Corporation). Over the years, the company's revenue mix has 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 (through contract manufacturing operations for other brands) 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 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, have enabled it to sustain a strong market position over the years. Its strong parentage (Suzuki Motor Corporation 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, characterised by conservative capital structure and strong debt coverage indicators - Subros was infused with Rs. 209.88 crore from the issue of equity shares on preferential basis to Denso Corporation, Japan, in December 2018 (FY2019). The company utilised the equity proceeds for part repayment of its debt and creditors, and continued to maintain healthy cash and bank balances (~Rs. 85.7 crore as of December 31, 2020). The financial risk profile of the entity improved significantly post the equity infusion, and is now characterised by a conservative capital structure (gearing of 0.2 time as of March 31, 2020) and strong debt coverage indicators (Total Debt/OPBDITA of 0.8 time, interest coverage of 5.3 times and NCA/Total Debt of 117% in FY2020). The company's TOL/TNW also remains at moderate levels of 0.8 time, despite the significant creditors on its balance sheet. With capex requirements expected to remain at moderate levels, improved cash accruals are likely to help the company maintain its strong financial risk profile (Total Debt/OPBDITA to reduce to 0.3-0.4 time by FY2023).

Credit challenges

High client and segment concentration risks with MSIL driving ~80% of sales - The company remains exposed to customer concentration risk with sales to MSIL accounting for ~80% (including indirect sales) of its total revenues in 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' strong share of business across various model programmes of the OEM. Subros also remains focussed on reducing its segment and client concentration risks through business gains from new segments, such as CVs, home ACs and the railways.

Moderate profitability and return indicators - Subros's operating profitability has remained at stable levels of 10.5–11.0% over the past few years, aided by efforts to increase its localisation levels for improving operational efficiency. The company's operating profitability deteriorated by ~110 bps in FY2020 (9.7%), led by a decline in operating leverage as well as a change in product mix. Even as a near washout in Q1 FY2021 is likely to lead to some moderation in operating profitability in the current fiscal, they will remain healthy. The company's operating margins are expected to gradually expand over the medium term benefitting from economies of scale, measures to rationalise costs as well as increased localisation (operating margins to range between 10.5-11.5%).

The company's net profits in FY2020 remained supported by an extraordinary profit of Rs. 41.3 crore with regards to the final settlement of its insurance claim for the 2016 fire accident at its Manesar plant. Consequently, the company's RoCE remained at healthy levels of 18%. Post a moderation in RoCE in the current fiscal to 9-10%, an expectation of a gradual improvement in operating margin will help the company maintain healthy return indicators (RoCE expected to range between 15-17% over the medium term).

Liquidity position: Strong

The liquidity position of the entity remains strong, supported by sizeable cash and bank balances (~Rs. 85.7 of fixed deposits as of December 31, 2020), low utilisation of working capital facilities and expectation of strong cash accruals (~Rs. 120-150 crore per annum). The entity continues to have sufficient liquidity to meet its debt repayments (~Rs. 17.8 crore in FY2022) and moderate capex plans (~Rs. 50-60 crore in FY2022).

Rating sensitivities

Positive factors – A sustained improvement in the company's operational profile through material diversification of its automotive segment mix could trigger a rating upgrade. A healthier than expected improvement in RoCE to over 20% on a sustained basis would be favourably considered for an upward revision in ratings.

Negative factors – A rating downgrade could be triggered if there is a significant deterioration in the company's operational profile led by a decline in SOB with key OEMs, especially MSIL. Further, deterioration in profitability indicators or a higher-than-expected capital expenditure/acquisition outlay, which adversely impacts the credit profile of the entity, could trigger a downward revision in ratings. Specific credit metrics that could result in a downgrade include Debt/OPBDITA greater than 1.5 times on a sustainable basis.

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	For arriving at the ratings, ICRA has considered the consolidated financials of Subros Limited. As on March 31, 2020, the company had a subsidiary and a JV, which are enlisted in Annexure-2. The scale of operations of the consolidated entity are not material, and the standalone credit profile remains the primary rating driver.

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 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 cabins and railway driver cabins.

The company's manufacturing plants at Noida (Uttar Pradesh), Manesar (Haryana), Pune (Maharashtra), Chennai (Tamil Nadu) and Karsanpura (Gujarat) have an annual production capacity of ~2.0 million AC kits. It also has a manufacturing and assembly unit for residential and commercial cooling products at Nalagarh (Himachal Pradesh). Subros has a technological agreement with Denso Corporation, Japan, a leading automotive manufacturer in the global market. Denso Corporation currently owns a 20% ownership interest in Subros. Suzuki Motor Corporation, Japan, also holds a ~11.96% share in the listed entity, with ~36.8% held by the Suri family.

Key financial indicators (audited)

Subros Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	2,124.5	1,992.8
PAT (Rs. crore)	76.2	84.8
OPBDIT/OI (%)	10.8%	9.7%
PAT/OI (%)	3.6%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.8
Total Debt/OPBDIT (times)	1.1	0.8
Interest Coverage (times)	5.4	5.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 10, 2021 (Rs. crore)	Date & Rating			Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					26-Feb-21	13-May-20	24-Apr-20	24-Jan-20	19-Dec-18	22-Dec-17	19-May-17
1	Fund-based -Term Loan	Long Term	36.00	**36.00**	[ICRA]AA- (Stable)	[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	95.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based - Working Capital Facilities	Long Term/ Short Term	30.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[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+	[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	17.50	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
9	Commercial Paper Programme	Short Term	75.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

10	NCD Programme	Long Term	-	**-**	-	**[ICRA]AA- (Stable); withdrawn**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**

&= Under watch with developing implications

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan - 1	Jan 2018	-	August 2023	21.00	[ICRA]AA-(Stable)
NA	Term Loan - 2	June 2020	-	March 2025	15.00	[ICRA]AA-(Stable)
NA	Non-fund Based - Working Capital Facilities	NA	NA	NA	95.00	[ICRA]A1+
NA	Fund-based - Working Capital Facilities	NA	NA	NA	30.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Fund-based/ Non-fund Based - Working Capital Facilities	NA	NA	NA	125.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	17.50	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Commercial Paper	Yet to be placed			75.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

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

Source: *Annual Report FY2020; * Pursuant to the approval of Board of Directors in their meeting held on May 28, 2018 for closure of Thai Subros Limited, the liquidation of the subsidiary was completed on August 01, 2019*

Corrigendum

Document dated February 26, 2021 has been corrected with revisions as detailed below:

a) Rating Action for Commercial Paper programme was incorrectly mentioned in Summary of Rating Action table on Page 1; has been corrected to 'Reaffirmed' in the revised document

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