

December 22, 2017

## Subros Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
NCD Programme	150.00	[ICRA]A+; re-affirmed, outlook revised from stable to positive
Term Loans	105.23 (revised from 161.00)	[ICRA]A+; re-affirmed, outlook revised from stable to positive
Cash Credit	35.00 (revised from 45.00)	[ICRA]A+; re-affirmed, outlook revised from stable to positive
Non-fund Based Limits	15.00	[ICRA]A+; re-affirmed, outlook revised from stable to positive
Fund-based and Non-fund based Limits	220.00 (revised from 225.00)	[ICRA]A+/[ICRA]A1+; re-affirmed, outlook revised from stable to positive
Unallocated	4.34 (revised from 'nil')	[ICRA]A+/[ICRA]A1+; re-affirmed, outlook revised from stable to positive
Commercial Paper programme	120.0	[ICRA]A1+; re-affirmed

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has re-affirmed the long-term/ short-term ratings outstanding of [ICRA]A+/[ICRA]A1+ (pronounced ICRA A plus / ICRA A one plus) on the Rs. 379.57-crore<sup>1</sup> bank facilities (revised from Rs. 446.10-crore) and re-affirmed long-term rating outstanding of [ICRA]A+ (pronounced ICRA A plus) on the Rs. 150.00-crore non-convertible debenture (NCD) programme of Subros Limited ('Subros' or 'the company'). ICRA has also re-affirmed the short-term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 120.00-crore Commercial Paper (CP) programme of the company. The outlook on the long-term rating has been revised from "Stable" to "Positive".

### Rationale

The change in the rating outlook reflects improvement in credit metrics of the company supported by consistent strong performance over the recent quarters reflected in healthy accruals. ICRA factors in favorably the initiatives taken by management towards diversification reflected in the recently won business for supply of air-conditioners (ACs) or blowers for Truck driven cabin which would boost the revenues, if the regulation<sup>2</sup> gets implemented as scheduled. Besides this, Subros is expected to benefit from scale up of supplies for home AC segment and railways driver cabin AC segment. Addition of these revenue streams would reduce the customer as well as segment concentration risk for the company over the medium term. Currently, Subros derives majority of its revenues from passenger vehicle OEMs with sales to MSIL (including indirect sales) contributing more than 80% of revenues; however, Subros' strong share of business with the OEM provides rating comfort. The revision in outlook also takes into consideration the expected improvement in cost structure with benefits of higher localization and greater operational efficiency.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> Ministry of Road, Transport and Highways (MoRTH) has set January 01, 2018 as the deadline for rolling out commercial vehicles (>3.5 tonne gross vehicle weight) with air-conditioning/ventilation systems.

The ratings continue to take into consideration the dominant market share of Subros in the domestic automotive AC market, technical support from Denso Corporation (Denso), as well as equity participation from Suzuki Motor Corporation (SMC) and Denso. Notwithstanding the challenges faced on account of fire during FY2017, Subros has reported double digit growth in net sales over the last eight quarters backed by supplies against new businesses from certain passenger vehicle (PV) original equipment manufacturers (OEMs) as well as non-PV OEMs. Furthermore, the sales were also supported by reinstatement of entrustment contract manufacturing of engine cooling module assembly for Denso from February 2017; during H1FY2018 Subros' revenues from this business was ~Rs. 100 crore. The ratings also draw comfort from the company's backward integrated manufacturing infrastructure, multi-location assembly facilities as well increased local sourcing of components which has supported its competitive positioning.

The company's rating is, however, constrained by moderate coverage metrics with relatively high debt levels because of sizeable past investments towards capacity expansions, new product development and backward integration. Further, the ratings are constrained by sizeable debt repayments and incremental capex requirements towards the Gujarat plant which would keep the free cash flows (after repayments) under pressure. Additionally, ICRA notes that dependence on short-term funds (including bank borrowings, creditors and advances from customers) for scaling up operations has resulted in Subros' current ratio being weaker than companies rated in this category. Nevertheless, ICRA expects the trend to correct after next few years as a result of the company's improving cash accruals and moderate capex requirements. The ratings also derive comfort from financial flexibility of the company as demonstrated by its ability to refinance a portion of its bank borrowings with relatively lower cost market instruments that has also improved debt profile giving extended repayment tenure. Moreover, with healthy revenue visibility and expected improvement in profitability indicators, over the medium term, the company's coverage indicators as well as cash flows are expected to improve.

#### **Outlook:**

ICRA believes that the company would improve its position in the automotive AC market supported by healthy and stable share of business with Maruti Suzuki India Limited (MSIL) as well as increasing revenues from other OEMs given the strong product line-up. The ratings may be revised upwards if the company is able to sustain Total Debt/ OPBDITA below 1.5 times while reducing its Total outside liabilities/ TNW. On the other hand, the outlook may be revised to "Stable" if leverage indicators deteriorate with higher than expected debt addition for capital expenditure or working capital arrangements of the company or further weakening of current ratio.

#### **Key rating drivers**

##### **Credit strengths**

- **Healthy scale-up in operations over the recent quarters; strong new product line-up supports revenue visibility over the medium term** – Subros has reported double digit growth in revenues over the last eight quarters supported by supplies against new business in PV and non-PV segments as well as reinstatement of contract manufacturing of engine cooling modules for Denso. While the overall favourable sales trend expected in PV segment would support Subros' revenue, the start of supplies of blowers/ ACs against recently won business for truck driver cabin are expected to boost the revenue streams over the near to medium term. Besides this the company is expected to benefit from management's efforts to diversify revenue streams through supplies for home AC segment and railways driver cabin AC segment.
- **Improving segment diversification; start of supplies for truck cabin ACs/blowers to further aid improvement in segment and customer mix** – Although Subros continues to derive majority of its revenues from MSIL but the direct sales to the OEM has gradually declined from ~80% in FY2015 to ~73% in H1FY2018. This favourable movement in customer-mix has been a result of management's

effort to gain business from other OEMs (such as Mahindra and Mahindra Limited or “M&M”, Renault Nissan Automotive India Private Limited or “Renault-Nissan”) in the PV segment and supplies against non-PV business such as railways driver cabin AC, Bus AC and entrustment contract manufacturing of engine cooling modules for Denso. Recently, the company has been awarded business for supply of AC/ blower systems for truck cabins from key industry players such as Tata Motors Limited (TML), Ashok Leyland limited (ALL), Daimler India Commercial Vehicles (DICV), and M&M. Supplies against this business would aid in reducing in customer and segment concentration risk.

- **Leading market position in AC market for PV segment** – With ~40% market share, in terms of revenue, Subros is the market leader in the PV AC market followed by Sanden Vikas India Limited and Calsonic Kansei Motherson Auto parts Limited. Further, supplies against recently gained majority business share of the truck AC/blower market would strengthen Subros’ competitive positioning in the automotive segment as a whole.
- **Technical collaboration with Denso Corporation strengthens competitive positioning; focus on backward integration and localization to further support competitiveness** - The competitive intensity in the domestic automotive AC market has increased over the years on account of entry of foreign ancillaries in the Indian market through joint ventures (JVs) with Indian suppliers. Nevertheless, Subros’ in-house R&D capabilities, technical collaboration with Denso, considerable scale of operations as well as low cost structure, has helped it to sustain its market leadership. Subros’ strong parentage (both Suzuki and Denso hold 13% equity stake in Subros) has also helped it maintain strong business relations with key customer MSIL.

#### Credit weaknesses

- **Single OEM dependence with MSIL accounting for ~80% (including indirect sales) of the company’s net sales** – High customer concentration risks with direct and indirect sales to MSIL accounting for ~80% of revenues in H1FY2018; indirect sales to MSIL comprise of engine cooling modules supplied to the OEM through Denso. Nevertheless, the market leadership position of MSIL, strong product line up, coupled with strong business share (~60%) of the company with the OEM mitigate this risk to an extent.
- **Moderate coverage indicators with relatively high debt levels on account of sizeable past investments** - The ratings are constrained by the moderate coverage indicators with Total debt/OPBDITA of ~ 2.4 times as on March 31, 2017 (~2.6 times as on March 31, 2016). Further, the company’s Total outside liabilities/ Total Net Worth at 2.3 times as on March 31, 2017 remains much higher than similar rated peers in auto component industry.
- **Sizeable debt repayments and incremental capex requirement to keep the cash flows under pressure over the medium term-** Over the past years, Subros’ free cash flows after repayments have remained negative on account of incremental capex requirements and sizeable debt repayments leading to refinancing by the company. ICRA expects the trend to correct after next few years as a result of the company’s improving cash accruals and moderate capex requirements.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

**About the company:**

Subros was promoted in 1985 by Mr. Ramesh Suri and his younger brother, the Late Mr. Lalit Suri, to manufacture automotive AC systems. The company began its operations from 1986 after signing a technological agreement with Denso Corporation, which also acquired a 13% ownership interest in Subros. Suzuki Motor Corporation (SMC), Japan, also holds a 13% share in the company, while 40% is held by the Suri family, and the remaining by the public (34%).

**Key Financial Indicators**

	<b>FY 2016</b>	<b>FY 2017</b>	<b>H1FY2018*</b>
Operating Income (Rs. crore)	1306.8	1549.5	915.5
PAT (Rs. crore)	23.9	14.0	25.6
OPBDIT/ OI (%)	11.6%	10.8%	11.2%
RoCE (%)	9.9%	7.8%	20.4%
Total Debt/ TNW (times)	1.2	1.2	1.0
Total Debt/ OPBDIT (times)	2.6	2.4	1.8
Interest coverage (times)	3.6	4.0	5.2
NWC/ OI (%)	10.8%	10.9%	-

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*

*NWC: Net Working Capital; \*Published results*

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

**Any other information:** Not applicable

**Rating history for last three years:  
Table:**

	Instru ment	Type	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
			Amou nt Rated (Rs. crore)	Amount Outstandi ng (Rs. crore)	Date & Rating  Dec 2017	Date & Rating in FY2018  May 2017	Date & Rating in FY2017		Date & Rating in FY2016  Oct 2015	Date & Rating in FY2015  Jun 2014
							Dec 2016	Jun 2016		
1	Cash Credit	Long Term	35.00	-	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA] A+ &	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)
2	Term Loan	Long Term	105.23	105.23	[ICRA] A+ (Stable)	[ICRA]A + (Stable)	[ICRA]A + (Stable)	[ICRA] A+ &	[ICRA]A+ (Stable)	[ICRA] A+ (Stable)
3	Non Fund Based Limits	Long Term	15.00	-	[ICRA] A+ (Positive)	[ICRA]A + (Stable)	[ICRA]A + (Stable)	[ICRA]A+ &	[ICRA]A+ (Stable)	[ICRA] A+ (Stable)
4	Fund Based and Non Fund based Limits	Long / Short Term	220.00	-	[ICRA] A+ (Positive)/ [ICRA] A1+	[ICRA]A + (Stable)/ [ICRA] A1+	[ICRA] A+ (Stable)/ [ICRA] A1+	[ICRA] A+ &/ [ICRA]A1 +&	[ICRA]A+ (Stable)/ [ICRA] A1+	[ICRA] A+ (Stable)/ [ICRA] A1+
5	NCD Progra m	Long Term	150.00	-	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	-	-	-	-
6	CP Progra m	Short Term	120.00	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA]A1 +&	[ICRA]A1+	[ICRA] A1+

Note: '&' placed on Rating 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 [www.icra.in](http://www.icra.in)

**Annexure-1  
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Cash Credit				35.00	[ICRA]A+ (Positive)
	Term loan-1	Mar, 2016		Dec, 2020	27.50	[ICRA]A+ (Positive)
	Term loan-2	Jun, 2015		Mar, 2020	30.00	[ICRA]A+ (Positive)
	Term loan-3	Jun, 2016		Mar, 2021	28.00	[ICRA]A+ (Positive)
	Term loan-4	Sep, 2016		Mar, 2020	19.73	[ICRA]A+ (Positive)
	Bank Guarantee	NA		-	15.00	[ICRA]A+ (Positive)
	Fund Based and Non Fund based Limits				220.00	[ICRA]A+ (Positive)/ [ICRA]A1+
INE287B07010	NCD (Long-term)	Aug, 2017	8.5%	Apr, 2020	150.00*	[ICRA]A+ (Positive)
	Commercial Paper			7-365 days	120.00	[ICRA]A1+
	Unallocated	NA		NA	4.34	[ICRA]A+ (Positive)/A1+

Source: Subros Limited; \* Out of Rs. 150.0 crore rated NCD programme Subros has only placed Rs. 50 crore

## Contact Details

### Analyst Contacts

**Subrata Ray**  
+91 22 2433 1086  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Anupama Arora**  
+91 124 4545 303  
[anupama@icraindia.com](mailto:anupama@icraindia.com)

**Sandhya Negi**  
+91 124 4545 343  
[sandhya.negi@icraindia.com](mailto:sandhya.negi@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

### About ICRA Limited:

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20- 6606 9999; Fax: +91-20-25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500