Track Components Ltd

August 09, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based	49.0	[ICRA]BB (Stable); assigned
Long/Short Term – Fund/Non-Fund Based Limits	40.0	[ICRA]BB (Stable)/[ICRA]A4; assigned
Total	**89.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B) and a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 89.0-crore of bank facilities of Track Components Ltd (TCL or the company). The outlook on the long-term rating is Stable.

Rationale

The ratings take into consideration the extensive experience of TCL's promoters in the domestic automotive industry as well as its healthy business position as a sole supplier for exhaust components with customers. The company is involved in manufacturing various tubular as well as sheet metal components and assemblies, which find application in two-wheeler and four-wheeler vehicles. Having started as a dedicated supplier to Mark Exhaust Systems Limited (MESL) – a joint venture between its promoters and Maruti Suzuki India Limited (MSIL), TCL gradually expanded its customer base to add Mahindra and Mahindra Limited (M&M) and Honda Motorcycle and Scooter India Private Limited (HMSI). The company had incurred significant debt-funded capex for setting up a plant in Bangalore for HMSI, however, the cash accruals from its operations were not sufficient to support the debt obligations and thus, there were instances of delays in servicing the obligations for one of the financiers in the past. ICRA notes that in October 2017, TCL has sold assets of its Bangalore plant and the resultant proceeds were used to repay the corresponding bank borrowings. As confirmed by management, there have been no instances of delays since November 2017. Notwithstanding the decline in sales revenue in FY2018 following the discontinuation of sales from the Bangalore plant, ICRA notes that the new business gained from M&M as well as steady business from MESL would support the revenue growth for the continuing operations.

The ratings of the company, however, remain constrained by its weak financial risk profile, characterised by high gearing and muted coverage indicators. While the capital structure of the company is primarily comprised long-term debt, the presence of Rs. 113.5 crore as on March 31, 2018 as unsecured loans from promoters provide comfort to an extent. The ratings are further constrained by TCL's high working capital intensity owing to its need to maintain high inventory levels. This has led to stretched liquidity profile as reflected in its high working capital limit utilisation. The ratings assigned are also constrained by the significant client concentration risk with revenue dependence on two customers. Nevertheless, the strong market position of two largest customers of MESL i.e. MSIL and HMSI and favourable growth prospects for passenger vehicles and two wheelers over the medium term bode well.

Outlook: Stable

The Stable outlook on the long-term rating reflects ICRA's belief that the company would grow its current operations supported by new business from its customers, while managing its external borrowings. The outlook may be revised to Positive if there is substantial growth in revenues and profitability, coupled with improved working capital management and reduction in client concentration, which may strengthen TCL's financial and liquidity profile. The outlook may be revised to Negative, if cash accruals are lower than expected, or if any major debt-funded capital expenditure, or further elongation of working-capital cycle weakens the financial and/or liquidity profile of the company.

Key rating drivers

Credit strengths

Established business relationships and healthy share of business with its customers – The company is involved in manufacturing various tubular as well as sheet metal components and assemblies such as, sliding door mechanism, cross car beam (CCB) assembly, body-in-white (BIW) assemblies, door sash and muffler. TCL caters to MESL from its Manesar (Haryana) plant, M&M from Pune and Nashik (Maharashtra) plants and enjoys 100% share of business for supplies of components for the select models of the OEM catered by the company. In the past, HMSI was being catered from the Bangalore plant (till October 2017).

Demonstrated track record of financial support from promoters through infusion of unsecured loans – ICRA takes note of TCL's track record of financial support from promoters as reflected by infusion of unsecured loans of more than Rs. 80 crore during FY2014-2015 to fund its capex requirements. These promoter loans have remained at the same level even as the company used proceeds from the sale of the Bangalore plant for pre-payment of bank borrowings. A part of these unsecured loans is subordinated to the bank borrowings, which provides comfort to the lender (banks and financial institutions).

Credit challenges

High client concentration risk, with total revenues emanating from two customers – Over the years, the revenues of the company had been contributed by only three customers – MESL, M&M and HMSI, indicating a high client concentration risk. Moreover, with discontinuation of supplies to the HMSI in October 2017, the client concentration risk had further increased. Nonetheless, healthy share of business, coupled with long-established relationship with the clients provides comfort to an extent.

Weak financial risk profile characterised by high gearing and muted coverage indicators – The company has a weak financial risk profile, characterised by a gearing of 4.1 times as on March 31, 2018 and muted coverage indicators (Total Debt/OPBITDA of 6.0 times in FY2018). TCL's total borrowings as on March 31, 2018 stood at Rs. 202.2 crore, of which Rs. 113.5, crore comprised unsecured loans from promoters. With no major capex plans, likely improvement in profitability, coupled with scheduled repayment of debt will help TCL to improve its financial risk profile going forward.

High segment concentration risk – Over the past two fiscals, the revenue contribution from the two-wheeler and four-wheeler segments were nearly equal, however, post-discontinuation of supplies to HMSI in FY2018, the revenues from the four-wheeler segment is likely to dominate, indicating a high segment concentration risk. Though with a likely increase in supply against new business for four-wheeler segment may further skew the revenue streams, but favourable growth expectations for both the segments support the revenue growth for TCL.

Intense competition in automotive ancillary industry exert pressure on margins – Despite healthy scale up in operations over the years, the operating margins of the company had remained range bound owing to the presence of other automotive component manufacturers, which exerts pricing pressures. With increasing presence of domestic as well as international players in the automotive ancillary business, the competition had increased over the years. Nonetheless, TCL's established relationship with the clients mitigates the risk to a certain extent.

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:

Incorporated in 1999, TCL is a manufacturer of auto components comprising separator assembly, sub-mufflers, tubular pipes and assemblies, sliding door mechanisms, door sash, BIW assembly and CCB assembly among others, which find applications in two-wheelers and four-wheelers. The company was promoted by Mr. Rattan Kapur (also Chairman and Director of MESL) and Mr. Sandeep Chandhok. At present, the company has three plants – Manesar (Haryana), Pune and Nashik (Maharashtra). TCL started as a supplier to MESL but later diversified its customer base to include M&M and HMSI.

Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	452.1	386.9
PAT (Rs. crore)	4.2	1.1
OPBDIT/ OI (%)	8.1%	8.7%
RoCE (%)	11.4%	11.8%
Total Debt/ TNW (times)	4.2	4.1
Total Debt/ OPBDITA (times)	7.5	6.0
Interest coverage (times)	1.2	1.1

**Provisional Financials*

Status of non-cooperation with previous CRA:

CRISIL, in its rationale published dated June19, 2018, had migrated the ratings to "ISSUER NOT COOPERATION" and rating outstanding was "CRISIL D/ CRISIL D Issuer not cooperating".

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date &Rating August 2018	Chronology of Rating History for the past 3 years Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
						-	-	-
1	Fund Based – Term Loans	Long Term	49.0	**48.8**	**[ICRA]BB (Stable)**	-	-	-
2	Fund-Based/Non-Fund Based	Long/ Short Term	40.0	**NA**	**[ICRA]BB (Stable)/ [ICRA] A4**	-	-	-

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	Long-Term Fund Based – Term Loans	August 8, 2017	NA	December 27, 2024	49.0	[ICRA]BB (Stable)
NA	Long/Short-Term Fund/Non-Fund Based	August 8, 2017	NA	NA	40.0	[ICRA]BB (Stable)/ [ICRA]A4

Source: TCL

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Sandhya Negi
+91 22 4545343
sandhya.negi@icraindia.com

Akshay Saini
+91 124 4545 835
akshay.saini@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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