January 07, 2020

Rockman Industries Limited: Rating reaffirmed at [ICRA]AA/A1+; outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	155.50	155.50	[ICRA]AA(Stable) reaffirmed; outlook revised from Positive
Term Loans	280.64	398.68	[ICRA]AA(Stable) reaffirmed; outlook revised from Positive; assigned to enhanced amount
Short-term fund based/ non fund based	100.00	100.0	[ICRA]A1+ reaffirmed
Short-term non fund based	10.00	-	-
Unallocated	25.00	25.00	[ICRA]AA(Stable)/A1+ reaffirmed; outlook revised to Stable from Positive
Total Bank Line Facilities	**571.14**	**679.18**	
Commercial Paper	75.00	75.00	[ICRA]A1+ reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into consideration Rockman Industries Limited's (RIL's) established market position as a leading supplier of aluminium die-cast components (including alloy wheels), its strong linkages with key customer and group company—Hero MotoCorp Limited (HMCL, rated [ICRA]AAA(Stable)/A1+)—and the fructification of its diversification initiatives, which is expected to strengthen its business profile over the medium term.

RIL is the leading supplier of alloy wheels and other aluminium die-cast engine components such as crank cases, cylinder heads and flange panels to HMCL, with majority share of business with the original equipment manufacturer (OEM). With the strong business and operational linkages with HMCL, RIL is positioned as a captive supplier and has maintained healthy share of business with HMCL over the years in its addressable segment. In FY2019, HMCL accounted for around 80% of RIL's revenues, resulting in customer concentration and segment concentration risk. Nevertheless, HMCL's position as one of the leading two-wheeler (2W) manufacturers and track record of RIL's strong share of business with HMCL offers comfort. This is also reflected in the greenfield expansion undertaken by the company in Gujarat, in line with the OEM's expansion plans, which is scheduled to commence operations from Q4 FY2020. Ramp up in supplies from this facility would help to further cement RIL's business share with HMCL.

ICRA also favourably notes the company's ongoing diversification initiatives, with supplies to OEMs other than HMCL expected to scale up over the near term. RIL had set up a greenfield unit in Andhra Pradesh to manufacture both 2W and passenger vehicle (PV) alloy wheels, supplies for which commenced in the current fiscal and are in the process of being ramped up. With supplies of alloy wheels from this facility to new customers ramping up over the next fiscal, ICRA expects material diversification of the company's revenue streams and reduction in dependence on HMCL going forward. Nevertheless, ICRA notes that continuation of Anti-Dumping Duty (ADD) on PV alloy wheels is likely to remain critical for the prospects of the PV alloy wheel business. However, given that the ADD was renewed in April 2019 for a period of five years, the near term business prospects remain protected to a large extent.

Nevertheless, ICRA takes note of the significant investment of around Rs. 830 crore undertaken by the company with respect to the capital expenditure (capex) at the two greenfield facilities, a large proportion of which has been debt-funded. Coupled with the slowdown in the domestic automotive sector over the past few quarters, the company's earnings and credit metrics are expected to weaken during the current fiscal. Nonetheless, this is expected to revive over the medium term with ramp up in supplies at the new facilities and scheduled repayment of the term debt. Accordingly, ICRA expects Total Debt/OPBITDA to peak during the current fiscal and improve subsequently. ICRA also takes comfort from the healthy cash flow generation of the company, and its financial flexibility by virtue of being part of the Hero Group, which would support it in meeting its debt servicing obligations over the medium term.

ICRA also notes that the company has made investments in its non-automotive business interests via its 27% equity stake in Hero Electronix Private Limited (HEPL), which is the Group's investment vehicle for non-automotive businesses. In line with HEPL's requirement, RIL has made an additional investment of Rs. 70 crore in the entity between FY2019 and FY2020. ICRA would continue to monitor the requirement for incremental funding support from RIL for HEPL's product development and expansion, and accordingly, this would remain a rating sensitivity.

The revision in outlook to Stable from Positive on the long-term rating reflects the slowdown in the domestic 2W industry and the delay in commissioning new plants from earlier expectations. Accordingly, it is expected that the ramp up from the new plants would be gradual, resulting in some moderation in return indicators and credit metrics over the near term. Nonetheless, ICRA believes that RIL would continue to maintain its operational and financial performance over the medium term. Although profitability and credit metrics are expected to moderate over the near term, given additional overheads from the new plants, and the current subdued demand environment, the company is expected to tide over the same.

Key rating drivers and their description

Credit strengths

Leading manufacturer of 2W alloy wheels in India – With an installed annual manufacturing capacity of 8 million 2W alloy wheels, and another 4 million to be commercialised in FY2020, RIL is positioned as one of the largest domestic manufacturers of 2W alloy wheels in India. Currently, it enjoys the majority share of business with HMCL and is in the process of increasing its business with other 2W OEMs. OEMs are increasingly opting for localising their alloy wheel procurement, given the hike in import duty and increased competitiveness of domestic alloy wheel supplies vis-à-vis imports. Accordingly, component manufacturers like RIL are likely to benefit from improved order inflows, despite the current weakness in automobile sales.

Strong and well-established relationship with key customer, HMCL – RIL supplies aluminium die-casting components such as alloy wheels, cylinder heads, crank cases and flange panels, among others, to HMCL, with presence with the OEM across its manufacturing facilities. The company has also set up a new plant in Gujarat to cater to HMCL's Gujarat plant, which is scheduled to commence operations from Q4 FY2020, and would further cement its share of business with the OEM.

Ongoing diversification and capacity expansion initiatives to support business profile over medium term – As part of RIL's diversification strategies, the company has commenced supplies to two new customers in the current fiscal, for both 2W and PV alloy wheels. Ramp up in these supplies over the medium term would reduce customer concentration risk and also increase the share of revenues from the PV industry, thereby reducing the exposure to underlying risks of the 2W industry as well.

Comfortable financial risk profile characterised by healthy capital structure and credit metrics; financial flexibility supported by Group linkages – The company has a comfortable financial risk profile supported by large scale of operations and healthy cash accruals. Despite some weakening in credit metrics expected over the near term because of sizeable debt-funded capex undertaken for the greenfield facilities, the credit metrics are expected to improve gradually over the medium term aided by revival in earnings and scheduled repayment of term loans contracted for setting up new facilities. Additionally, with strong inter-group linkages as part of the Hero Group, the company maintains healthy financial flexibility in accessing financial institutions and the debt market for funding requirements.

Credit challenges

Customer and segment-concentration risk; however, diversification initiatives to mitigate the same over medium term – HMCL drove approximately 80% of RIL's revenues in FY2019. However, the risk is mitigated to an extent by HMCL's strong market position in the domestic 2W market and RIL's strategic importance as a key vendor of aluminium die-cast components to the OEM. Additionally, with ramp-up in the new businesses, this risk is expected to reduce over the medium term.

Ongoing slowdown in domestic automotive industry to impact earnings over near term - With the domestic automotive industry undergoing a period of slowdown, RIL's revenues and volumes during the current fiscal have been lower than expected. Although incremental supplies from the new plants would support it to offset the slowdown trend to some extent, ICRA expects ramp up at the new plants to be gradual than earlier expected, given the current weak demand scenario.

Ongoing greenfield expansions that were partially debt-funded to impact return indicators and credit metrics over the near term – With commercialisation of more than Rs. 830 crore across two greenfield facilities in the current fiscal, and sub-optimal utilisation of existing facilities considering the ongoing automotive slowdown, return indicators and credit metrics are expected to weaken in the current fiscal. Nevertheless, confirmed orders in hand for the plants, along with the trend in import substitution for alloy wheels (given hike in import duty for 2W alloy wheels and ADD on PV alloy wheels), offers comfort regarding timely ramp up at the plants. Hence, credit metrics and return indicators are expected to improve over the medium term as supplies from the new plants reach optimal levels.

Liquidity position: Strong

RIL's liquidity position is **strong**, supported by healthy cash flow generation from operations of around Rs. 200 crore and adequate buffer in unutilised working capital facilities (Rs. 105 crore on an average during February-November 2019). The company also maintains healthy financial flexibility as part of the larger Hero Group. Going forward, capex outgo is likely to remain restricted to routine capex and would be funded from internal accruals. Annual debt repayments, while currently modest, would increase over the medium term, because of the sizeable debt-funded capex undertaken. However, cash flow generation from operations would remain comfortable in meeting the same.

Rating sensitivities

Positive triggers: Given the expectation of gradual ramp up in production at recently set up facilities and its impact on credit metrics, any rating upgrade is unlikely in the near term. Nonetheless, material diversification in segment mix with dependence on the 2W segment reducing below 60% would augur well for a positive rating movement over the medium-term. RoCE and TD/OPBDIT improving to 20% and below 1x, respectively, on a sustained basis will be considered favourably for a rating upgrade.

Negative triggers: Slower than expected ramp up in sales from recently set up plants resulting in further moderation in credit metrics with TD/OPBDIT above 2x on a sustained basis, or further sizeable incremental investments in the non-automotive business could lead to a downward rating movement.

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 rating is based on the consolidated financial profile of the company.

About the company

Established in 1961, RIL in one of the leading auto component manufacturing entities of the Hero Group with presence in aluminium die-cast components. RIL is the major supplier of key engine components and alloy wheels to HMCL, who accounts for about 80% of its turnover. The company caters to around 45% of HMCL's alloy wheel requirement and is also one of the leading suppliers of other aluminium die-cast components such as crank case, crank case covers and cylinder heads.

Over the past few years, the company has put in place a strategy to diversify its exposure and has made both organic and inorganic investments to secure business outside the 2W industry. Some of the key inorganic investments made by the company include Sargam Die Castings (in 2014) and Moldex Composites Private Limited (2018). Sargam Die Castings, engaged in aluminium die-casting for customers such as Ford and Bosch, was renamed as Rockman Industries Chennai Private Limited post the acquisition, and subsequently amalgamated with RIL with effect from April 1, 2018. The other acquired entity, Moldex (rated [ICRA]BBB-(Stable)), manufactures carbon composites for super luxury and racing vehicles.

RIL has also made investments in non-automotive businesses with focus on electronics and semi-conductor testing facilities. These investments were held by its 27% stake in group company, HEPL. The company is currently unlisted and its promoters (Hero Group) own 100% stake.

RIL's existing manufacturing facilities are at Ludhiana (Punjab), Bawal (Haryana), Haridwar (Uttaranchal) and Chennai (Tamil Nadu), where RIL produces a range of aluminium die-cast components using high-pressure, low-pressure and gravity die-casting technologies. Additionally, RIL has a dedicated auto-chain manufacturing plant at Mangli (Punjab). The company has also recently set up greenfield facilities in Andhra Pradesh (for manufacturing alloy wheels for PV and 2W OEMs) and in Gujarat at a cumulative investment of about Rs. 830 crore.

Key financial indicators (consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	2,335.3	2,410.4
PAT (Rs. crore)	140.5	119.8
OPBDIT/OI (%)	11.4%	10.6%
RoCE (%)	21.0%	17.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6
Total Debt/OPBDIT (times)	0.2	1.2
Interest Coverage (times)	36.1	44.4
DSCR	5.7	10.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019		FY2018	FY2017
					7-Jan-2020	15-Mar-2019	30-Jan-2019	8-Dec-2017	6-Jan-2017
1	Cash Credit	Long Term	155.50	47.35	[ICRA]AA (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
2	Term Loans	Long Term	398.68	224.98	[ICRA]AA (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)
3	Short-term fund based/ non fund based	Short Term	100.0	20.11	[ICRA]A1+	[ICRA]A1+	-	-	-
4	Short-term non fund based	Short Term	-	NA	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long Term/ Short Term	25.00	NA	[ICRA]AA (Stable)/ A1+	[ICRA]AA (Positive)/ A1+	[ICRA]AA (Positive)/ A1+	[ICRA]AA (Positive)/ A1+	[ICRA]AA (Stable)/A1+
6	Commercial Paper	Short Term	75.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore **As on March 31, 2019*

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	Term Loan I	Aug 2019	NA	FY2026	87.53	[ICRA]AA(Stable)
NA	Term Loan II	Jan 2019	NA	FY2026	300.00	[ICRA]AA(Stable)
NA	Term Loan III	Mar 2014	NA	FY2022	10.49	[ICRA]AA(Stable)
NA	Term Loan IV	Mar 2014	NA	FY2021	0.66	[ICRA]AA(Stable)
NA	Cash Credit	NA	NA	NA	155.50	[ICRA]AA(Stable)
NA	Short-term fund based/ non fund based	NA	NA	NA	100.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	25.00	[ICRA]AA(Stable)/ [ICRA]A1+
NA	Commercial paper	NA	NA	7-365 days	75.00	[ICRA]A1+

Source: Rockman Industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Moldex Composites Private Limited	51.00%	Full Consolidation
Hero Electronix Private Limited	27.00%	Equity Method

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About ICRA Limited:

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