



## Elgi Rubber Company Limited

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Ref: ERCL/SEC/2021/Nov/01

November 3, 2021

The Manager — Listing,  
National Stock Exchange of India Limited,  
Exchange Plaza, Bandra Kurla Complex,  
Bandra East,  
Mumbai — 400 051

Dear Sirs,

**Sub** : Intimation of regarding credit rating - reg  
**Ref** : Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)  
**Symbol** : ELGIRUBCO

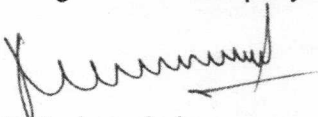
Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”), we would like to inform that the Company has received the credit rating for its fixed deposit programme and banking facilities on November 2, 2021 from CARE Ratings Ltd, as per the details given below, as per the rationale attached:

Type of Instrument / Facility	Rating Assigned
Fixed Deposit	CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]
Long Term Bank Facilities	CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	CARE A4+ (A Four Plus)

Kindly take the above information on record.

Thank you,

Yours faithfully,  
For Elgi Rubber Company Limited

  
S R Venkatachalam  
Chief Financial Officer

Encl: As above

**Annexure  
Press Release  
Elgi Rubber Company Limited**

**Rating**

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	115.30	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	94.09	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	15.00	CARE A4+ (A Four Plus)	Assigned
Short Term Bank Facilities	18.25	CARE A4+ (A Four Plus)	Assigned
<b>Total Bank Facilities</b>	<b>242.64</b> <b>(Rs. Two Hundred Forty-Two Crore and Sixty-Four Lakhs Only)</b>		
Fixed Deposit	12.00	CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]	Assigned
<b>Total Medium-Term Instruments</b>	<b>12.00</b> <b>(Rs. Twelve Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to the bank facilities and fixed deposit of Elgi Rubber Company Limited (Elgi) are constrained by the moderate capital structure and debt coverage indicators albeit improved during FY21, stretched liquidity with net losses incurred in the past years due to moderate performance of the subsidiaries and exposure of profit margins to volatility in raw material prices. The ratings however derive strength from vast experience of the promoters in the tyre reclaim and retreading business and established relationship with reputed customer profile.*

**Key Rating Sensitivities**

*Positive Factors- Factors that could lead to positive rating action/upgrade:*

- *Ability to improve PBILDT margins to over 10% on consistent basis and generate adequate accruals with profitable turnaround of operations in subsidiaries*
- *Timely realization of asset monetization plans and reducing the debt levels*

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- *Any large debt funded capex leading to moderation in capital structure with overall gearing above 2x*
- *Any continued losses in the subsidiaries due to extended impact of covid pandemic*

**Detailed description of the key rating drivers**

**Key Rating Weakness**

**Moderate capital structure and debt coverage indicators:** The debt profile of Elgi mainly consists of term loans (43%) and working capital (52%) and around 60% of debt lies in subsidiaries. The capital structure of the company stood moderate with overall gearing of

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

1.44x as on March 31, 2021 as against 1.58x as on March 31, 2020. The Promoters has infused funds in the past to support the operations and the unsecured loans and fixed deposits from promoters stood at Rs. 12 crores as on March 31, 2021. Due to net losses incurred in the past with marginal cash profits the debt coverage indicators stood moderate at Total Debt/ GCA of 13.37x as on March 31, 2021 albeit improved from 154x as on March 31, 2020. The company has plans for selling the free hold land in Indian entity for around Rs. 9 crore in the next one year and also plans for leasing out the office space in headoffice premises for rental income of around Rs. 1.80 crore per year. The proceeds from the land sale are expected to reduce the debt levels and the timely monetization of the same is a key monitorable

**Losses incurred in the past years however improved in FY21:**

Elgi operates over 170 active franchises and generates almost 50% of its domestic revenues and around 25% of its consolidated revenues from the same. Elgi derives more than half of its revenues from the overseas markets, primarily from, Europe and North America and the remaining from the Indian market (standalone operations). Weak financial performance of the foreign subsidiaries due to demand slowdown following covid pandemic had resulted in net losses for the company in recent past. Over the past years, the company has closed two of its overseas subsidiaries, paring down loss-making operations. The company reported net loss of Rs.15.20 crore (PY: Rs.16.10 crore) in FY20. Nevertheless the profitability improved in FY21 due to better realization of products on account of revival in auto sector and the company reported net profit of Rs.1.10 crore.

**Profit margins exposed to volatility in raw material prices:** The key raw materials used by Elgi are Natural and Synthetic rubber, Carbon black, Steel coil and other rubber chemicals. The Natural rubber forms 25-33% of raw material consumption by value while carbon black forms 15-25% of consumption. High volatility in natural rubber prices is the result of international trade policies, fluctuations in demand and supply of natural rubber, fluctuation in oil prices and political changes. The PBILDT margins of the company had been volatile in the range of 2.90% to 9.00% over the past three years ended FY21.

**Key Rating Strengths**

**Vast experience of promoters:** Mr. Sudarsan Varadaraj, the Chairman and Managing Director of the company has over 4 decades of experience in the tyre re-treading and rubber reclaim business. His son Mr. Harsha Varadaraj, Whole time director has over 9 years of experience and looks after the Indian operations. The other directors in the company also have experience of 3-4 decades in the rubber industry. Mr. Jairam Varadaraj, director, aged 61 years, brother of Mr. Sudarsan Varadaraj is also the managing director of Elgi Equipments Limited which is engaged in air compressor manufacturing such as reciprocating compressors, screw compressors, and centrifugal compressors, and garage equipment for the automotive segment. Mr. Sudarsan Varadaraj is also in the board of Elgi Equipments Limited. Mr. Jairam Varadaraj is also the former Chairman of the Tamil Nadu State Committee of the Confederation of Indian Industry (CII) and past member of the Southern Region Council of CII.

**Established and diversified clientele:** The strong track record of the company and vast experience of promoters in the re-treading business have aided in establishing a strong customer network. Some of the top customers include major tyre manufacturers such as CEAT Limited (CARE AA; Stable/ CARE A1+), MRF Limited (CARE AAA; Stable/ CARE A1+) etc. The client profile is diversified with top 5 customers forming 21.83% of sales at standalone level and 10.4% at consolidated level in FY21.

**Liquidity analysis- Stretched**

Liquidity is stretched marked by lower accruals compared to the consolidated repayment obligations and the company had managed the liquidity shortfall through funds from promoters and sale of non-core assets in the past. The company had free cash balance of Rs.10.1 crore as on March 31, 2021. The company offers collection period of around 2 months to its customers while maintains inventory of 4-5 months. The company at standalone level has been sanctioned working capital limits of Rs.40 crore and the average utilization of the same stood around 70.02% for the past 12 months ended July 2021. The company had availed covid emergency loans of Rs.14.40 crore in FY21 to meet the working capital requirements. Company also availed covid moratorium from March to August 2020 as a relief measure offered by banks due to covid 19.

**Industry outlook:**

Indian tyre industry witnessed V Shaped recovery with stellar performance in Q4FY21 driven by strong revival in demand from the domestic automobile industry and exports. For Q4FY21, the industry recorded high sales growth of 40% y-o-y, while operating margins improved substantially by 66% on y-o-y basis. CARE Ratings opines that overall credit profile of the tyre industry is expected to remain stable; however, headwinds include slower-than-expected demand growth, sharp increase in RM cost and prolonged COVID 19 impact. While revenues in Q2FY22 would be driven by pent-up demand, H2FY22 sales would be on account stronger demand from rebound in economic activities post monsoon. Post heavy capex spends towards capacity addition over the last two years, tyre industry is expected to restrict capex plans in FY22 until the sector witnesses sustained surge in demand.

**Analytical approach: Consolidated-** In view of the significant investments and advances extended by the Elgi to its subsidiaries namely Borrachas e Equipamentos Elgi Ltda, Brazil (99.99% shares), Pincott International Pty Limited, Australia (100% shares), Elgi Rubber Company Limited, Kenya (99.99% shares), Elgi Rubber Company Limited, Sri Lanka (99.99% shares), Treadsdirect Limited, Bangladesh (100% shares), Elgi Rubber Company LLC, USA (100% shares), Elgi Rubber Company Holdings B.V., Netherlands (100%) shares, CARE has taken a consolidated view of the companies together for its analysis. The company had extended corporate guarantee to Rubber Resources B.V., Netherlands, Elgi Rubber Company Holdings B.V., Netherlands, Elgi Rubber Company LLC, USA for term loan and working capital limits.

**Applicable Criteria:**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

**About the company:**

Elgi Rubber Company Limited (Elgi) was incorporated in October 2006 under the name of Elgi Aviation Tyres Limited and was renamed as Elgi effective April 7, 2011. Elgi manufactures reclaim rubber, tread rubber, bonding gum and other rubber products used in the Rubber Industry, predominantly in the Tyre sector and it also provides retreading services through a franchisee network. Elgi has six manufacturing units spread across Tamilnadu and Kerala. The company also has seven wholly-owned subsidiaries and two step-down subsidiaries located in various countries, including the Netherlands, Brazil, Kenya, US, Bangladesh and Sri Lanka. The company is listed on National Stock Exchange (NSE).

Brief Financials (Rs. crore)- Consolidated	FY20(A)	FY21 (A)	Q1 FY22 (Prov)
Total operating income	376.9	355.3	82.2
PBILD	11.0	31.9	4.1
PAT	(15.2)	1.1	(4.3)
Overall gearing (times)	1.58	1.44	NA
Interest coverage (times)	0.57	2.05	1.10

A-Audited; NA: Not available

**Status of non-cooperation with previous CRA:**

Not Applicable

**Any other information:**

Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants on instruments rated:** Not applicable

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2026	66.09	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	3.00	CARE BB+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	0.25	CARE A4+
Non-fund-based - ST-Bank Guarantees		-	-	-	3.00	CARE A4+
Non-fund-based - ST-Letter of credit		-	-	-	15.00	CARE A4+
Non-fund-based - LT-Standby Letter of Credit		-	-	-	115.30	CARE BB+; Stable
Fund-based - ST-Working Capital Limits		-	-	-	15.00	CARE A4+
Fixed Deposit		-	10%	2 years	12.00	CARE BB+ (FD); Stable

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	66.09	CARE BB+; Stable				
2	Fund-based - LT-Cash Credit	LT	25.00	CARE BB+; Stable				
3	Fund-based - LT-Working Capital Demand loan	LT	3.00	CARE BB+; Stable				
4	Fund-based - ST-Bank Overdraft	ST	0.25	CARE A4+				
5	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A4+				
6	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A4+				
7	Non-fund-based - LT-Standby Letter of Credit	LT	115.30	CARE BB+; Stable				
8	Fund-based - ST-Working Capital Limits	ST	15.00	CARE A4+				
9	Fixed Deposit	LT	12.00	CARE BB+ (FD); Stable				

\* Long Term / Short Term

## Annexure -3: Covenants on instruments rated: Not applicable

## Annexure-4: Complexity on Instruments

Sr. No	Name of instrument	Complexity level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT-Working Capital Demand loan	Simple
5	Fund-based - ST-Bank Overdraft	Simple
6	Fund-based - ST-Working Capital Limits	Simple
7	Non-fund-based - LT-Standby Letter of Credit	Simple
8	Non-fund-based - ST-Bank Guarantees	Simple
9	Non-fund-based - ST-Letter of credit	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications

## Annexure 5: Bank Lender Details

To view the lender wise details of bank facilities please [click here](#)

## Contact us

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.