



## Elgi Rubber Company Limited

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Ref: ERCL/SEC/2019/Feb/03

19<sup>th</sup> February, 2019

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

Dear Sirs/Madam,

Sub : Intimation regarding revision in credit rating – reg.

Symbol : ELGIRUBCO

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the credit rating agency ICRA Limited has revised long term rating for the line of credit to [ICRA]BBB- from earlier rating of [ICRA]BBB.

Kindly take the above on record and acknowledge.

Thank you.

For Elgi Rubber Company Limited

A handwritten signature in black ink, appearing to be 'Santhanakrishnan V', written over a horizontal line.

Santhanakrishnan V  
Company Secretary & Compliance Officer

Received on 19.02.2019

## Elgi Rubber Company Limited

February 18, 2019



### Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
LT-Foreign Currency Term Loan	USD 4.50 Mio	USD 4.50 Mio	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB(Negative)
LT- Fund Based Facility	Rs. 35.00cr	Rs. 35.00cr	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB(Negative)
LT- Non Fund Based Facility	Rs. 66.70 cr	Rs. 66.70 cr	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB(Negative)
LT- Non Fund Based Facility	USD 5.24 Mio	USD 5.24 Mio	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB(Negative)
LT- Non Fund Based Facility	EUR 6.10 Mio	EUR 6.10 Mio	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB(Negative)
ST-Fund Based Facility	Rs. 15.00 cr	Rs. 15.00 cr	[ICRA]A3; reaffirmed
ST-Fund Based sub limits	Rs.(10.00) cr	Rs.(10.00) cr	[ICRA]A3; reaffirmed
ST-Non Fund Based Facility	Rs. 18.00cr	Rs. 18.00cr	[ICRA]A3; reaffirmed
LT/ST- Unallocated facilities	Rs.0.60 cr	Rs.0.60 cr	[ICRA]BBB- (Negative) from [ICRA]BBB(Negative) / [ICRA]A3; reaffirmed

\*Instrument details are provided in Annexure-1

### Rationale

The rating action takes into account the weak performance and sustained weakening of Elgi Rubber Company Limited (ERCL) consolidated financial profile on account of persistent losses in foreign operations (Netherlands, USA, Brazil) despite the improvement in revenues. The weak foreign operations were partially negated by the improvement in performance of domestic operations post the GST related disruptions witnessed in FY2018.

The rating action also factors in the continuous support required by the foreign subsidiaries from the Indian entity in the form of corporate guarantees or loans to fund the overseas losses/capex. This impacted ERCL's coverage indicators with TD/OPBITDA of 16.7 times and interest coverage ratio of 1.0 times as on March 31, 2018. Going forward, the company has plans to reduce its debt by Rs.60 crore (by March 2019) via. monetizing of its non-core assets (land) and thereby improve its debt coverage metrics.

The ratings continue to factor in the strong track record of the company and its promoters in the re-treading and rubber products business, the company's well diversified clientele for reclaim rubber which includes major tyre manufacturers (CEAT, MRF, TVS and ERCL's wide spread franchisee network (192 franchisees) in the re-treading segment. Further, the prospects for the re-treading industry in India are expected to improve going forward driven by higher radialization in the commercial vehicle tyres segment.

Ability of the group to correct its over-seas cost structure, address supply side issues, expand scale of operations through focus on profitable products / geographies and timely monetization of its non-core assets will be critical for improvement in the credit profile.

## Outlook: Negative

ICRA believes Elgi Rubber Company Limited will continue to support its loss-making subsidiaries and thus timely monetization of its non-core assets is a key monitorable for servicing debt repayments. The outlook may be revised to 'Stable' if the foreign subsidiaries operation stabilize and the company can monetize its non-core assets in a timely manner. The outlook may be revised to Positive if foreign subsidiaries witness substantial growth in revenue and profitability, and with better working capital management.

## Key rating drivers

### Credit strengths

**Strong franchise network** – The Company operates its re-treading business through a well-established franchise model. ERCL operates 192 franchises (February 2019) and generates almost 50% of its domestic revenues and ~25% of its consolidated revenues from the same.

**Established and well diversified clientele** – The strong track record of the company and more than 35 years of promoter's experience 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, MRF and TVS. The company sells reclaim rubber to these companies; this segment accounts for 53.5% of revenues

**Favourable growth prospects for re-treading business** – Revenues from the re-treading business has grown at a CAGR of 24% over the last five years (FY2014-18) to account for 41.4% of revenues. Volatile tyre prices and higher radialisation supports increased re-treading; radial tyres can be re-treaded up to four times as against around two times for bias tyres.

### Credit challenges

**Loss making foreign subsidiaries** – ERCL posted a consolidated net loss of Rs.4.6 crore as against a net profit of Rs.1.9 crore on a standalone basis up to H1 FY2019. This was on account weak performance in the foreign subsidiaries in Netherlands, Brazil, and USA. Revenue from foreign operations contributed to ~62% of the consolidated revenues during change FY2018. Going forward, the losses from foreign subsidiaries in Brazil and USA is expected to be partially offset by the improvement in Netherlands operations.

**Stretched debt coverage indicators-** The continuous funding to foreign subsidiaries via. external borrowings coupled with high debt funded capital expenditure resulted in elevated debt levels of Rs.296.8 crore (March 31,2018) up from Rs.151 crore (March 31, 2014). This resulted in stretched coverage indicators with TD/OPBITDA of 16.7 times and interest coverage ratio of 1.0 times as on March 31, 2018.

**Fragmented industry structure-** The industry is dominated by the unorganised sector with a sizeable market share of 70-75%. This is primarily due to the pricing disparity that exist between the organized and unorganized players on account of tax evasion. However, with the introduction of GST and increasing radialisation of tyres the organized share is expected to increase going forward.

### Liquidity Position:

ERCL has a consolidated debt repayment of Rs.25-30 crore per annum over the next three years. This coupled with debt funded capital expenditure of Rs.25 crore to be incurred in FY2020 is expected to impact the overall liquidity of the company. Despite the above, ERCL's liquidity derives comfort from the managements plan to monetize its non-core assets (land) to reduce its debt exposure. The management has plans to monetize land worth Rs.60 crore by March 2019 of which the company has already realized Rs.14 crore as on January 31, 2019.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<u>Corporate Credit Rating Methodology</u> <u>Rating Methodology for Auto Component Manufacturers</u>
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ERCL. As on March 31, 2018, the Company had 7 subsidiaries and 3 stepdown subsidiaries that are enlisted in Annexure-2.

## About the company:

Elgi Rubber Company Limited (ERCL) is engaged in manufacturing of re-treading products and providing re-treading solutions through franchisee network and a reclaim rubber manufacturing for tyre manufacturers. The Company had one domestic subsidiary –Titan Tyre care Products LLP, India and ten foreign subsidiaries in various countries including Netherlands, Australia, Brazil, Kenya, USA, Sri Lanka, Bangladesh. The company is listed in National Stock Exchange (NSE).

The standalone entity is engaged in the manufacturing of reclaim rubber, tread rubber and bonding gum and other rubber products. ERCL has other rubber, machinery and accessories manufacturing facilities at Annur, Vellalore and Kovilpalayam; tread rubber and bonding gum manufacturing facility at Kuruchi, Coimbatore and Kottayi, Palakkad with a capacity of 1000 tpm. The reclaim rubber is manufactured at manufacturing facilities in Chengalpet and Kanjikode, Palakkad district with a total capacity of ~1000 tpm. Elgi's products are sold under the brands Jet, Pincott, Carbrasive, Midwest Rubber, RCH, CRS, Armonas, Westernweld and Ecorr. The Company also has captive windmills of 5MW capacity and an aircraft tyre re-treading facility in Coimbatore.

At the consolidated level, the company reported net loss of Rs. 4.7 crore on an operating income of Rs. 194.8 crore during H1 FY2019 as against a net loss of Rs. 6.8 crore on an operating income of Rs. 182.8 crore during H1 FY2018.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	375.0	376.4
PAT (Rs. crore)	-7.5	-5.2
OPBDIT/OI (%)	4.0%	4.7%
RoCE (%)	2.0%	2.6%
Total Debt/TNW (times)	1.1	1.0
Total Debt/OPBDIT (times)	17.4	16.7
Interest coverage (times)	1.0	1.0

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

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
				Feb 2019	Feb 2018	Oct 2017	Mar 2017	Jul 2016	
1	Term Loan	Long term	USD 4.50 Mio	USD 4.2 Mio	[ICRA] BBB- (Negative)	[ICRA] BBB (Negative)	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)
2	Cash Credit	Long term	Rs. 35.0 cr	-	[ICRA]BBB- (Negative)	[ICRA] BBB (Negative)	[ICRA] BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
3	Bank Guarantee	Long term	Rs. 66.70 cr	-	[ICRA]BBB- (Negative)	[ICRA] BBB (Negative)	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)
4	Bank Guarantee	Long term	USD 5.24 Mio	-	[ICRA]BBB- (Negative)	[ICRA] BBB (Negative)	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)
5	Bank Guarantee	Long term	Euro 6.10 Mio	-	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
6	Export Packing Credit	Short term	Rs. 15.0 cr	-	[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2+
7	Letter of Credit/BG	Short term	Rs. 18.0 cr	-	[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2+
8	Sublimit	Short term	Rs. 10.0 cr	-	[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2+
9	Unallocated	Long/Short term	Rs. 0.6 cr	-	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB+ (Negative)/ ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+

### 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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2016	-	March 2022	USD 4.50 Mio	[ICRA] BBB-(Negative)
NA	Cash Credit	-	-	-	Rs. 35.0 cr	[ICRA] BBB-(Negative)
NA	Bank Guarantee	-	-	-	Rs. 66.70 cr	[ICRA] BBB-(Negative)
NA	Bank Guarantee	-	-	-	USD 5.24 Mio	[ICRA] BBB-(Negative)
NA	Bank Guarantee	-	-	-	Euro 6.10 Mio	[ICRA] BBB-(Negative)
NA	Export Packing Credit	-	-	-	Rs. 15.0 cr	[ICRA]A3

NA	Letter of Credit/BG	-	-	-	Rs. 18.0 cr	[ICRA]A3
NA	Sub-limit	-	-	-	Rs. 10.0 cr	[ICRA]A3
NA	Unallocated	-	-	-	Rs. 0.6 cr	[ICRA]BBB-(Negative)/ [ICRA]A3

Source: Elgi Rubber Company Limited

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Elgi Rubber Company LLC, USA	100.00%	Full Consolidation
Elgi Rubber Company Limited, Kenya	100.00%	Full Consolidation
Elgi Rubber Company Limited, Sri Lanka	99.99%	Full Consolidation
Treadsdirect Limited, Bangladesh	99.99%	Full Consolidation
Borrachas e Equipamentos Elgi Ltda, Brasil	99.99%	Full Consolidation
Pincott International Pty Limited, Australia	100.00%	Full Consolidation
Titan Tyrecare Products LLP, India	99.99%	Full Consolidation

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## About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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