



## Elgi Rubber Company Limited

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Ref: ERCL/SEC/2017/Sep/01

September 6, 2017

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

Dear Sir,

Sub: Intimation regarding revision in credit rating – reg.

Symbol : ELGIRUBCO

Series : EQ

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the credit rating agency ICRA Limited has reaffirmed the long term rating of Rs.110.76 crore, USD 10.35 million and EUR 4.50 million Line of credit at [ICRA]BBB+ and revised the outlook from stable to negative. Also it has reaffirmed the short term rating of Rs.33 crores at [ICRA]A2.

This is for your information & please take the above on record and acknowledge the same.

Thanking you,

For Elgi Rubber Company Limited,

Selvakumar D  
GM-Finance & Company Secretary

Encl.: Certificate from ICRA Limited

# Elgi Rubber Company Limited

September 5, 2017

## ICRA reaffirms the ratings for bank facilities of Elgi Rubber Company Limited at [ICRA]BBB+ and [ICRA]A2; outlook revised from stable to negative

### Summary of rated instruments

Instrument*	Rated Amount	Rating Action
LT-Foreign Currency Term Loan	USD 4.50 Mio	[ICRA]BBB+/reaffirmed ;outlook revised from stable to negative
LT- Fund Based Facility	Rs. 35.00cr	
LT- Non Fund Based Facility	Rs. 75.16 cr	
LT- Non Fund Based Facility	USD 5.85 Mio	
LT- Non Fund Based Facility	EUR 4.50 Mio	
ST-Fund Based Facility	Rs. 15.00 cr	[ICRA]A2 / reaffirmed
ST-Fund Based sub limits	Rs.10.00 cr	[ICRA]A2 / reaffirmed
ST-Non Fund Based Facility	Rs. 18.00cr	[ICRA]A2 / reaffirmed
LT/ST- Unallocated facilities	Rs.0.60 cr	[ICRA]BBB+ / [ICRA]A2 reaffirmed; outlook revised from stable to negative

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long term rating outstanding on the USD 4.50 Million foreign currency term loan facility, Rs. 35.00 crore long term fund based facility, Rs. 75.16 crore long term non fund based facility, USD 5.85 Million long term non fund based facility, Euro 4.50 Million long term non fund based facility of Elgi Rubber Company Limited (ERCL)<sup>1</sup> at [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long term rating has been revised from 'stable' to 'negative'. ICRA has also reaffirmed the short term rating outstanding on the Rs. 15.00 crore short term fund based facility, Rs. 10.00 crore fund based facility (sub limits) and Rs. 18.00 crore non fund based facility of ERCL at [ICRA]A2 (pronounced ICRA A two). For the unallocated facilities totalling Rs. 0.6 crore a rating of [ICRA]BBB+ or [ICRA]A2 would apply contingent upon the tenor of the availed facility.

### Rationale

The rating action takes into account the weaker than expected performance and sustained weakening of ERCL's consolidated financial profile on account of persistent losses in foreign operations (USA, Brazil) and weak overall demand scenario especially from European operations. The revenues from foreign operations together contributed to over ~54% of top line during Q1 FY2018. Also, the domestic performance was weak on account of disruptions during the GST transition period which had impacted the overall performance.

The rating action also factors the continuous support provided by the Indian arm to its foreign subsidiaries in the form of corporate guarantees to the tune of Rs. 125.7 crore (31<sup>st</sup> March, 2017).

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

Considering the presence of large debt repayments of around Rs.20 crore per annum prevailing at the consolidated level, the onus of repayment of these loans could fall on the Indian entity.

The ratings continue to factor in the strong track record of the company and its promoters in the retreading and rubber products business, the company's well diversified clientele for reclaim rubber which includes major tyre manufacturers (CEAT, MRF, TVS, etc) and ERCL's wide spread franchisee network (192 franchisees) in the retreading segment. Further, the prospects for the retreading industry in India are expected to improve going forward driven by increase in 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 and through focus on profitable products / geographies will be critical to improve the credit profile

## **Key rating drivers**

### **Credit strengths**

- **Strong franchisee network** – The company operates its retreading business through a well established franchise model. ERCL currently operates with 192 franchises (June'17) and generates almost 50% of its total domestic 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 retreading business have aided in establishing a strong customer network. Some of the top customers include major tyre manufacturers such as CEAT, MRF and TVS.
- **Healthy growth prospects for retreading business** – The revenues from the retreading business is growing at CAGR of 24% over the last five years (FY2013-17). The increased focus on retreading is primarily on account of increasing radialization; radial tyres can be retreaded up to four times as against just two times for bias tyres.

### **Credit weaknesses**

- **Loss making foreign subsidiaries** – ERCL posted a consolidated net loss of Rs.0.8 crore as against a net profit of Rs.0.4 crore on a standalone basis during Q1 FY2018. This was on account weak performance from foreign subsidiaries in Brazil, USA. The revenue from foreign operations contributed to almost 54% of the total revenues. However, going forward in the medium term the Netherlands entity is expected to sustain by itself in FY2018.
- **Corporate guarantees to subsidiaries-** The financial profile of the global subsidiaries are characterized by weak margins and high debt levels. However, the debt of the foreign subsidiaries is backed by of corporate guarantees to the tune of Rs. 125.7 crore from the parent. Since the debt repayments at the consolidated level are high at Rs.20 crore per annum, there is a possibility of support from the Indian arm to service the debt repayments.
- **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 cash and carry

nature of competitor operations which allows them to aggressively compete on prices whereas the organized players have only limited ability to pass on increase/decrease in cost to its customers. However, GST and increasing radialisation of tyres is expected to increase the share of the organized players going forward.

**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:**

Elgi Rubber Company Limited (ERCL) is engaged in manufacturing of retreading products and providing retreading 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 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 and Ecorr. The Company also has captive windmills of 5MW capacity and an aircraft tyre retreading facility in Coimbatore.

At the consolidated level, the company reported net loss of Rs. 0.8 crore on an operating income of Rs. 89.6 crore during Q1 FY2018 as against a net loss of Rs. 4.0 crore on an operating income of Rs. 103.4 crore during Q1 FY2017.

**Consolidated Key Financial Indicators (Audited)**

	FY2016	FY2017
Operating Income (Rs. crore)	362.3	375.0
PAT (Rs. crore)	-11.5	-7.9
OPBDIT/ OI (%)	4.0%	4.0%
RoCE (%)	0.9%	2.0%
Total Debt/ TNW (times)	0.9	1.1
Total Debt/ OPBDIT (times)	16.8	17.4
Interest coverage (times)	1.0	1.0
NWC/ OI (%)	40.6%	46.5%

*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*

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

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Date & Rating		Date & Rating		
				Sep' 2017	Feb' 2017	Jun' 2016	Jun' 2015	Jun' 2014
1	Term Loan	Long term	USD 4.50 Mio	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Cash Credit	Long term	Rs. 35.0 cr	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Bank Guarantee	Long term	Rs. 75.16 cr	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Bank Guarantee	Long term	USD 5.85 Mio	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Bank Guarantee	Long term	Euro 4.50 Mio	[ICRA] BBB+ (Negative)	[ICRA] BBB+ (Stable)	[ICRA]A- (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
6	Export Packing Credit	Short term	Rs. 15.0 cr	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A <sub>1</sub>	[ICRA]A1
7	Letter of Credit/ Bank Guarantee	Short term	Rs. 18.0 cr	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A <sub>1</sub>	[ICRA]A1
8	Unallocated	Long/ Short term	Rs. 0.6 cr	[ICRA] BBB+(Negative)/ [ICRA]A2	[ICRA] BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A <sub>1</sub>	[ICRA]A1

**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
	Term Loan	-	-	-	USD 4.50 Mio	[ICRA] BBB+ (Negative)
	Cash Credit	-	-	-	Rs. 35.0 cr	[ICRA] BBB+ (Negative)
	Bank Guarantee	-	-	-	Rs. 75.16 cr	[ICRA] BBB+ (Negative)
	Bank Guarantee	-	-	-	USD 5.85 Mio	[ICRA] BBB+ (Negative)
	Bank Guarantee	-	-	-	Euro 4.50 Mio	[ICRA] BBB+ (Negative)
	Export Packing Credit	-	-	-	Rs. 15.0 cr	[ICRA]A2
	Letter of Credit/ Bank Guarantee	-	-	-	Rs. 18.0 cr	[ICRA]A2
	Unallocated	-	-	-	Rs. 0.6 cr	[ICRA] BBB+ (Negative)/ [ICRA]A2

Source: ERCL

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### 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.

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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