



Press Release

Elgi Rubber Company Limited

Feb 21, 2024

Ratings

Instrument Facility	Amount (Rs. Crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long term Bank Facilities –	140.02	IVR BBB- with Negative Outlook (IVR Triple B Minus With negative Outlook)	IVR BBB- with Stable Outlook (IVR Triple B Minus With Stable Outlook)	Re-affirmed with Change in Outlook	Simple
Short Term Bank Facilities	124.75	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Re-affirmed	Simple
Fixed Deposit	12.00	IVR BBB- with Negative Outlook (IVR Triple B Minus With negative Outlook)	IVR BBB- with Stable Outlook (IVR Triple B Minus With Stable Outlook)	Re-affirmed with Change in Outlook	Simple
Total	276.77 (Rupees Two Hundred Seventy Six Crore and Seventy Seven lakhs Only)				

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has Re-affirmed long-term rating of IVR BBB- with a revision in outlook to negative and short-term rating of IVR A3 for the bank loan facilities/Fixed Deposit of Elgi Rubber Company Limited.

The outlook has been revised from stable to negative due to deterioration in 9MFY24 results.

The rating of Elgi Rubber Company Limited continue to consider the comfort from vast experience of the promoters in the tyre reclaim and re-treading business, established relationship with reputed customer profile, supported by growth in demand and reduced raw material costs. However, these factors are offset by Working capital intensive nature of operations and Susceptibility of profitability to raw material price volatility and decline in profitability in 9MFY24.



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IVR has principally relied on the standalone audited financial results of Elgi Rubber Company Limited up to FY22 & FY23 & 9MFY24 unaudited results and projected financials for FY24, FY25 & FY26 and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and EBITDA margins above 13%
- Improvement in debt protection metrics
- Sustenance of the gearing below 0.50x

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

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 retreading and rubber reclaim business. His son Mr. Harsha Varadaraj, Executive director has over 6 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, 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.



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Established and diversified clientele:

The strong track record of the company and vast experience of promoters in the re-treading and reclaim 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 10 customers forming 42.00% in FY23.

Improved debt protection metrics and financial risk profile:

In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) improved to 1.35x in FY2023 as compared to 0.96x in FY2022, and the debt service coverage ratio (DSCR) remained comfortable at 1.10x in FY2023. The tangible networth improved to Rs. 287.00 crore in FY2023 from Rs. 271.32 crore in FY2022. The total operating income (TOI) improved by ~12.54% to Rs. 223.01 crore in FY2023 from Rs. 198.36 crore in FY2022.

Key Rating Weaknesses

Decline in profitability in 9MFY24:

The company's EBITDA margin marginally declined to 9.15% in 9MFY24 as compared to 11.15% in 9MFY23. The PAT margin declined to 8.43% in 9MFY24 as compared to 23.09% in 9MFY23 owing to a decrease in other income from Rs. 24.19 Crore to 12.84 Crore in 9MFY24. The other income is decreased due to reversal of interest income recognized from three wholly owned subsidiaries on account of uncertainty of its recoverability.

Working capital intensive nature of operations:

Elgi operations are working capital intensive in nature, supported largely by bank borrowings. They have an elongated operating cycle of 153 days in FY2023 though improved in (FY2022:170 days) mainly due to the high receivable period of 88 days in FY2023 (92 days in FY2022).



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Susceptibility of profitability to raw material price volatility:

The company is exposed to volatility in raw material prices. The prices of these raw materials are highly volatile and can lead to volatility in the profitability margins. However, this risk of volatility in prices is partially mitigated by the company's long-standing relations and understanding with clients on the price front and price escalation clauses that work on both sides; in case raw material prices decline, the company passes on the benefit to customers, and in case the prices move upward, the company gets compensated for the same. Additionally, most of the orders in the telecom sector are of a short duration; hence, volatility in raw material prices can be incorporated in the new purchase order, preventing the company from large price movements.

Analytical Approach: Standalone

Applicable Criteria :

[Rating Methodologies for Manufacturing Entities](#)
[Financial Ratios & Interpretation Non- Financial Sector](#)
[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 87.20 crore, as on 31st March 2023. Against a current portion of long-term debt (CPLTD) of Rs 19.53 crore in FY2023, the company had a cash accrual of Rs. 24.71 crore in FY2023. The company projected to generate cash accruals of Rs. 45.41 crore in FY2024 against a CPLTD of Rs. 22.48 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

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 Rubber Company Ltd effective April 7, 2011. Elgi manufactures reclaim rubber, tread rubber, bonding gum and other rubber products used



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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 Tamil Nadu 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, Australia and Sri Lanka. The company is listed on National Stock Exchange (NSE).

Financials (Standalone):

For the year ended* As on	31-03-2022	31-03-2023	(Rs. crore) 9MFY24
	Audited	Audited	Unaudited
Total Operating Income	198.36	223.01	160.64
EBITDA	11.34	22.61	14.69
PAT	8.32	14.81	13.54
Total Debt	119.65	143.02	NM
Tangible Net worth*	271.32	287.00	NM
EBITDA Margin (%)	5.71%	10.14%	9.14%
PAT Margin (%)	3.84%	6.08%	8.43%
Overall Gearing Ratio (x)	0.44x	0.50x	NM

*as per Infomerics standards

Status of non-cooperation with previous CRA : Nil.

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)					Rating History for the past 3 years		
		Type	Amount Outstanding (Rs. crore)	Rating	Rating Dated : Oct 31, 2023	Rating Dated : July 18, 2023	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	100.02	IVR BBB- with Negative	IVR BBB- with Stable	IVR BBB- with Stable	-	-	-



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				Outlook (IVR Triple B Minus with Negative Outlook)	Outlook (IVR Triple B Minus with Stable Outlook)	Outlook (IVR Triple B Minus with Stable Outlook)			
2.	Cash Credit/WCDL	Long Term	40.00	IVR BBB- with Negative Outlook (IVR Triple B Minus with Negative Outlook)	IVR BBB- with Stable Outlook (IVR Triple B Minus with Stable Outlook)	IVR BBB- with Stable Outlook (IVR Triple B Minus with Stable Outlook)			
3.	Overdraft	Short Term	0.25	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	-	-	-
4	SLC	Short Term	106.50	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	-	-	-
5	LC	Short Term	18.00	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)			
6	Fixed Deposit	Long Term	12.00*	IVR BBB- with Negative Outlook (IVR	IVR BBB- with Stable Outlook (IVR	-			



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				Triple B Minus with Negative Outlook)	Triple B Minus with Stable Outlook)			

*Includes Proposed amount of Rs. 3.75 Crore

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Bank Facilities – Term Loan	-	-	-	100.02	IVR BBB- with Negative Outlook (IVR Triple B Minus With Negative Outlook)
Long term Bank Facilities – Cash Credit/WCDL				40.00	IVR BBB- with Negative Outlook (IVR Triple B Minus With Negative Outlook)
Short term Bank Facilities – Overdraft				0.25	IVR A3 (IVR A Three)
Short term Bank Facilities – SBLC				106.50	IVR A3 (IVR A Three)
Short term Bank Facilities – LC				18.00	IVR A3 (IVR A Three)
Fixed Deposit*				12.00	IVR BBB- with Negative Outlook (IVR Triple B Minus With Negative Outlook)

*Includes Proposed Amount of Rs. 3.75 Crore

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-ELGI-Rubber-feb24.pdf>



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Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com

