

Harita Seating Systems Limited

September 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	27.80	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long/ Short-term Bank Facilities	5.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)	Revised from CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)
Total Facilities	32.80 (Rupees Thirty Two crore and Eighty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Harita Seating Systems Limited (HSSL) factors in the improvement in its operational and financial performance for the two years ended March 2018 primarily supported by favorable demand from both domestic and export market.

The ratings continue to factor in the strong parentage of the TVS group and its long established presence in the automotive business, strong track record of HSSL in the seating system space and its long association with major Original Equipment Manufacturers (OEMs). The ratings also take into account HSSL's comfortable capital structure and debt coverage indicators with nil term debt as on March 31, 2018.

The ratings continue to be constrained by competitive nature of the business with presence of captive suppliers, raw material price volatility and the vulnerability of business to cyclical associated with the end use segments catered to by HSSL & consequent impact on profitability parameters.

Ability of the company to improve its profitability, increase its market share in various segments and any major debt-funded capital expenditure will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Part of the 'TVS' group a leading player in the auto ancillary business:

HSSL is part of TVS group, one of the leading players in the auto ancillary and automobile industry in India. The promoters of TVS group (through various companies) hold 52.23% stake in HSSL as on June 2018. By virtue of being part of TVS group, the company enjoys managerial and financial support from the group.

HSSL is headed by Mr Lakshmanan (Chairman) who has over six decades of experience in the automotive industry and is on the Board of TVS Motors Ltd (rated CARE AA+; Stable/ CARE A1+). The day-to-day affairs of the company are managed by a team of experienced professionals headed by Mr A.G. Giridharan (President and CEO) who is an engineer from IIT-Kharagpur and PGDM from IIM-Kolkata, with more than two decades of experience. The group has in the past demonstrated its support by providing unsecured loans to HSSL.

Established track record of operations and strong association with major OEMs:

HSSL is one among the larger players in the seating system business in India and has an established track record of more than three decades. HSSL enjoys considerable market share in seating systems for commercial vehicles segment. HSSL has a strong client base and established relationship with leading OEMs in Commercial Vehicles and Tractor segments. Diverse product offerings, established R&D support, strong brand image and ability to quickly scale up the operations in line with requirements of the OEMs, have helped the company in establishing a strong association with OEMs.

Improvement in operational and financial performance supported by favourable industry scenario:

The company caters to the requirements of CV segment (MHCV- Truck and LCV), tractor segment, bus passenger segment, and off road vehicle segment. Major portion of the revenue of HSSL is from CV segment which accounted for 40% of the net sales during FY18 followed by bus passenger segment (22%), tractor segment (17%), Exports (15%) and remaining by off-road vehicle segment.

HSSL reported strong income growth of 26% for FY18 supported by both growth in volumes and sales realization. Segment wise, sales from commercial vehicle segment grew by 27.5% on strong demand from Heavy commercial vehicles (HCV) while sales from Tractor segment grew by 36.6% on strong demand due to good monsoon. Export sales in FY18

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

almost doubled to Rs.63.3 Cr from Rs.31.8 Cr in FY17 due to strong orders from John Deere while growth from Bus Passenger Seats almost remained flat.

During FY18, the PBILDT margin of the company marginally improved to 10.71% from 10.06% in FY17. The improvement in Margin was due to better product mix towards exports, cost reduction initiatives by management and operating leverage benefit due to scale. Any volatility in raw material prices like steel, foam etc. is passed on to the customers though with a time lag of few months.

Comfortable capital structure and debt coverage indicators:

The capital structure of HSSL remained comfortable with nil term debt as on March 31, 2018. With higher internal accruals and no debt funded capex for FY18, the overall gearing has remained comfortable at 0.15x as on March 31, 2018 (PY:0.13x). The total debt of the company stood at Rs.17 crore as on March 31, 2018 (entirely being working capital limits). With increase in GCA, the total debt to GCA was low at 0.45x during FY18. HSSL planned for capex of around Rs.62 crore in FY19, majority of which is proposed to be funded through internal accruals.

Key Rating Weaknesses

Competitive business with captive suppliers and established players:

The seating system business is highly competitive with almost all major players having captive units for supply of seating systems. Apart from this, globally renowned seating system manufacturers setting up their plants in India given the growth potential of domestic auto industry resulting in further competition. Given, HSSL's strong business tie-ups with major OEMs, the threat from competition is mitigated to an extent.

Industry prospects

The automotive industry is cyclical in nature as the prospects are influenced by the investments and spending by the Government and individuals. Significant slow-down in investments in industrial and mining activities owing to policy bottlenecks combined with sluggish growth in agriculture activities due to adverse climatic conditions resulted in slow-down in the auto industry in the past. However, with lower cost of ownership of auto vehicles triggered by interest rate cuts in the past, push on manufacturing and infrastructure segment by the government, increase in rural demand have resulted in recovery of auto sector.

With the transition to Bharat Stage IV (BS-IV) emission norms completed and GST related regulations implemented, the CV industry has seen steady growth in demand. Going forward, growth is expected to continue on the back of Government push towards infrastructure development, road construction and mining activities and increasing demand from e-commerce and FMCG applications. With expected normal monsoon and increasing farm income is expected to drive tractor demand going forward. The growth in CV and Tractor segment is expected to benefit Harita Seating systems limited.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Auto Ancillary Companies](#)

About the Company

Harita Seating Systems Limited (HSSL) is part of Chennai-based TVS Group and is engaged in the manufacture of seating systems for commercial vehicles, buses, tractors and off-road vehicles. HSSL's manufacturing facilities are located in Hosur-Tamil Nadu, Pune- Maharashtra, Dharwad- Karnataka, Pant Nagar- Uttrakhand and Sriperumpudur-Tamil Nadu with an overall capacity to manufacture about 2.2 million seats per annum.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	356	447
PBILDT	36	48
PAT	25	31
Overall gearing (times)	0.13	0.15
Interest coverage (times)	39.35	33.74

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	27.80	CARE A; Stable
Non-fund-based - LT/ ST-Letter of credit	-	-	-	1.00	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4.00	CARE A; Stable / CARE A1

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (13-Oct-16)	1)CARE BBB+ (24-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	27.80	CARE A; Stable	-	1)CARE A-; Stable (04-Oct-17)	1)CARE A- (13-Oct-16)	1)CARE BBB+ (24-Sep-15)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	1)Withdrawn (13-Oct-16)	1)CARE A3+ (24-Sep-15)
4.	Non-fund-based - LT/ST-Letter of credit	LT/ST	1.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (04-Oct-17)	1)CARE A- / CARE A2+ (13-Oct-16)	1)CARE BBB+ / CARE A3+ (24-Sep-15)
5.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	4.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (04-Oct-17)	1)CARE A- / CARE A2+ (13-Oct-16)	1)CARE BBB+ / CARE A3+ (24-Sep-15)

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