RSB Transmissions (I) Ltd.
February 12, 2018

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. Crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>329.68 (enhanced from 286.84)</td>
<td>CARE BBB-; Stable (Triple B Minus; Outlook: Stable)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Short-term Bank Facilities</td>
<td>194.42 (enhanced from 194.29)</td>
<td>CARE A3 (A Three)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Total</td>
<td>524.10 (Rupees Five Hundred Twenty four crore and ten lakh only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RSB Transmission (I) Ltd continues to draw strength from experienced promoter with long track record of operation, improvement in financial performance in FY17 (refers to the period April 1 to March 31) & H1FY18, established position in auto component industry with multiple manufacturing facilities, strong in-house R&D and technical collaboration with a foreign company, strong marketing team, strong client relationship. However, the ratings continue to remain constrained by moderate capital structure marked by stretched liquidity, high exposure to subsidiaries and capital intensive nature of business.

The ability of the company to improve its turnover and profitability, efficient management of working capital, performance of group companies where it has significant exposure will remain the major rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with long track record of operation: The company has an established track record of four decades with reputed clientele base. Mr. R. K. Behera, Chairman, a Mechanical Engineer, possesses rich experience of more than three decades in automotive component industry. The other promoter director is Mr. S. K. Behera (a graduate with diploma in production management), brother of Mr. R. K. Behera, who is also actively involved in the business.

Highly experienced Board of Directors: RSBTL has 10 member board, with five directors are from the promoters’ family, four independent directors (including Shri Sarthak Behuria – the former MD of BPCL and former Chairman of IOCL; Shri Ajit Nimbalkar – Retired IAS officer of 1967 batch, Maharashtra cadre; Shri M R. Prasanna – ex-group general counsel of Aditya Birla Group), one nominee director (Managing Partner of IL&FS). All the directors are highly qualified having vast work experience in varied fields like automobile, construction, agro equipment and banks.

Established position in diversified product segments of auto component industry with multiple manufacturing locations: RSBTL is a leading supplier of automotive components to automobile and construction equipment industry. The group also has an international presence in North America. The company also has a diversified product portfolio in automotive components (includes Propeller Shafts, Axle Beams, Gears & Shaft sand Machined products) and Construction Equipment segment (includes frames, booms, arms, trailers).

Strong in-house R&D and technical team: In 2002, the group has set up a company, i-Design Engineering Solutions Ltd (IDESL), which caters to the in-house R&D requirement of RSBTL. IDESL offers full cycle product development (designing/ prototyping and testing) on a variety of software platforms. Further, RSBTL entered into a technical collaboration with a German-based company, Eugen Klien, in July 2005 for ten years and the same has been extended for another four years. The collaboration is expected to be extended at the expiry of the collaboration in 2019. The technical tie-up has provided critical manufacturing design on propeller shafts to RSB. In consideration of the technology transfer, RSB pays a royalty of 2% on propeller shaft sold based on Eugen Klien’s technical design.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.
In 2013, RSBTL has received Deming Prize for Total Quality Management for two of its plants (i.e. Jamshedpur and Pune). RSBTL is the only Indian company to receive the award in 2013 & 21st Indian company to receive this award till 2013. As auto-ancillary industry is highly precision oriented, receipt of such award indicates the superior quality for its product.

**Strong marketing team:** RSBTL has a strong marketing team which is in regular touch with the client’s strategic sourcing team to understand client’s requirements on both existing & new products. It also has a client service team located at each of its manufacturing units who are responsible for handling / coordinating deliveries.

**Demonstrated ability to develop and sustain strong client relationship:** RSBTL’s relationship with Tata Motors (TML) started in 1975 for supplying of sheet metal stamping. After the acquisition of TML’s propeller shaft division for HCV, the company became the major supplier for propeller shaft to TML. In the past two decades, it has become a preferred supplier for many automobile & construction equipment companies on the back of quality product. The top five customers contributed around 82% of net sales, with TML share being around 50% of net sales in FY17 (53% in FY16).

**Improvement in financial performance in FY17 and H1FY18:** RSBTL’s operating income grew by 15.88% y-o-y in FY17 to Rs.1008.91 due to improved demand from both automobile and construction assembly segment. PBILDT margin declined marginally from 12.69% in FY16 to 12.56% in FY17 on account of lower PBILDT margin from automobile division due to increase in steel price in Q4FY17, which could not be passed to the customers due to lag effect. Interest coverage improved from 2.31x as on Mar’16 to 2.43x as on Mar’17, despite an increase in interest cost due to higher PBILDT levels. In FY17, the company generated GCA of Rs.61.55 crore vis-a-vis debt repayment of Rs.38.83 crore. The financial performance of the company improved in H1FY18 vis-a-vis H1FY17. In H1FY18, the company reported PAT of Rs.15.84 crore (Rs.11.85 crore in H1FY17) and GCA of Rs.35.84 crore (Rs.30.35 crore) on total operating income of Rs.558.75 crore (Rs.466.96 crore in H1FY17).

**Moderate financial risk profile marked by stretched liquidity position:** The overall gearing moderated from 1.52x as on March 31, 2016 to 1.93x as on March 31, 2017 due to increase in debt availed by the company. However, excluding Bill Discounting amount, the overall gearing moderated from 1.14x as on March 31, 2016 to 1.41x as on March 31, 2017. RSBTL’s average working capital utilization was around 91% in the past 12 months ending December 2017. In the past, the maximum CC utilization exceeded 100% on several occasions primarily due to application of interest. However, the same were regularized within 7-10 days. The liquidity was stretched due to substantial increase in scale of operations without a corresponding increase in the CC limit. Further, the company availed a new term loan of Rs.190 crore in May 2017, which was utilized to pre-pay / foreclose debts amounting to around Rs.168 crore. The repayment of the new term loan would commence from FY21, which is expected to result in better liquidity position in the short to medium term. Despite higher debt, TD/GCA improved marginally from 6.99x as on March 31, 2016 to 6.87x as on March 31, 2017, mainly due to higher GCA reported by the company. After incorporating the impact of non-fund exposure of the company to the group, the adjusted overall gearing deteriorated from 2.40x as on March 31, 2016 to 2.80x as on March 31, 2017.

**High exposure to group companies:** RSBTL’s fund-based exposure to the group companies has increased from Rs.169.66 crore as on Mar.31, 2016 to Rs.219.46 crore as on Mar.31, 2017 as it infused Rs.34.1 crore as equity in RSB Europe for debt servicing. Fund based exposure is expected to increase further as the company is expected to continue to support the debt servicing of its subsidiaries i.e. RSB Europe. The exposure is mainly in the form of equity investment/advances given to its subsidiaries. Further, RSBTL has also provided corporate guarantees (CG) to the tune of Rs.191.30 crore as on Mar.31, 2017 to banks for facilities availed by group companies.
**Press Release**

**Key Rating Weaknesses**

**Working capital intensive nature of business:** The company’s operation is working capital intensive in nature marked by high average inventory period as it needs to maintain varies raw-materials and stores & spares so that it can timely supply the goods to its customers.

**Capital intensive nature of operations:** RSBTL’s operation is capital intensive in nature as it has to continuously incur cost for maintenance capex and technological upgradation.

**Improved outlook for auto component industry:** The auto component industry is expected to witness growth in in the near-term which will be largely driven by the buoyancy witnessed in automobile sales. Lower cost of ownership of auto vehicles triggered by series of interest rate cuts, push on manufacturing and infrastructure segment by the government has resulted in recovery of auto sector. Auto component industry stands to benefit from this turnaround in OEM demand and stable replacement demand. Capacity utilizations are also estimated to improve over the previous period which shall impact operating efficiencies favorably with most of the key input costs expected to remain largely stable.

**Analytical approach:** Standalone with impact of group exposures

**Applicable Criteria**

CARE’s methodology for manufacturing companies

Criteria on assigning Outlook to Credit Ratings

CARE’s Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

Rating Methodology – Auto Ancillary Companies

**About the Company**

RSB Transmissions (I) Ltd (RSBTL: erstwhile Neelachal Auto Pvt Ltd) was set up in 1975 by Jamshedpur-based brothers Mr. R. K. Behera and Mr. S. K. Behera. The company is engaged in the manufacturing of automotive components for automobile industry (such as propeller shaft, axle beams, gears & shaft, machined products) and for construction equipment industry (such as frames, booms, arms, trailers). RSBTL has nine manufacturing units spread across the country. The group also has an international presence with manufacturing setup in North America.

**Brief Financials (Rs. crore)**

<table>
<thead>
<tr>
<th></th>
<th>FY16 (A)</th>
<th>FY17 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>870.59</td>
<td>1008.91</td>
</tr>
<tr>
<td>PBILDIT</td>
<td>110.49</td>
<td>126.68</td>
</tr>
<tr>
<td>PAT</td>
<td>16.98</td>
<td>8.68</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>1.52</td>
<td>1.93</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>2.31</td>
<td>2.43</td>
</tr>
</tbody>
</table>

*Note: FY16 and FY17 refer to years ending on specific dates.*

**A: Audited**

Status of non-cooperation with previous CRA: 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/监管者 or others are welcome to write to care@careratings.com for any clarifications.

**Analyst Contact:**

Name: Ms. Richa Bagaria  
Tel: (033) 40181653  
Mobile: +91 99903470650  
Email: richa.jain@careratings.com

**For detailed Rationale Report and subscription information, please contact us at** www.careratings.com
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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

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-based - LT-Cash Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>84.20</td>
<td>CARE BBB--; Stable</td>
</tr>
<tr>
<td>Non-fund-based - ST-Bank Guarantees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12.00</td>
<td>CARE A3</td>
</tr>
<tr>
<td>Term Loan-Long Term</td>
<td>-</td>
<td>-</td>
<td>May 2024</td>
<td>245.48</td>
<td>CARE BBB--; Stable</td>
</tr>
<tr>
<td>Non-fund-based - ST-Letter of credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>169.95</td>
<td>CARE A3</td>
</tr>
<tr>
<td>Fund-based - ST-Standby Line of Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10.00</td>
<td>CARE A3</td>
</tr>
<tr>
<td>Non-fund-based - ST-Forward Contract</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.47</td>
<td>CARE A3</td>
</tr>
</tbody>
</table>
## Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Type</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Ratings</th>
<th>Rating</th>
<th>Date(s) &amp; Rating(s) assigned in 2017-2018</th>
<th>Date(s) &amp; Rating(s) assigned in 2016-2017</th>
<th>Date(s) &amp; Rating(s) assigned in 2015-2016</th>
<th>Date(s) &amp; Rating(s) assigned in 2014-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT</td>
<td>84.20</td>
<td>CARE BBB-; Stable</td>
<td>-</td>
<td>1)CARE BBB- Stable (20-Jan-17)</td>
<td></td>
<td></td>
<td>1)CARE BBB- (09-Jan-15)</td>
</tr>
<tr>
<td>2.</td>
<td>Non-fund-based - ST-Bank Guarantees</td>
<td>ST</td>
<td>12.00</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE A3 Stable (20-Jan-17)</td>
<td>1)CARE A3 Stable (05-Jan-16)</td>
<td>1)CARE A3 Stable (05-Jan-16)</td>
<td>1)CARE A3 Stable (09-Jan-15)</td>
</tr>
<tr>
<td>3.</td>
<td>Term Loan-Long Term</td>
<td>LT</td>
<td>215.48</td>
<td>CARE BBB-; Stable</td>
<td>-</td>
<td>1)CARE BBB- Stable (20-Jan-17)</td>
<td></td>
<td></td>
<td>1)CARE BBB- (09-Jan-15)</td>
</tr>
<tr>
<td>4.</td>
<td>Non-fund-based - ST-Letter of credit</td>
<td>ST</td>
<td>169.95</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE A3 Stable (20-Jan-17)</td>
<td>1)CARE A3 Stable (05-Jan-16)</td>
<td>1)CARE A3 Stable (05-Jan-16)</td>
<td>1)CARE A3 Stable (09-Jan-15)</td>
</tr>
<tr>
<td>5.</td>
<td>Fund-based - ST-Standby Line of Credit</td>
<td>ST</td>
<td>10.00</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE A3 Stable (20-Jan-17)</td>
<td>1)CARE A3 Stable (05-Jan-16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Fund-based - LT-Term Loan</td>
<td>LT</td>
<td>30.00</td>
<td>CARE BBB-; Stable</td>
<td>-</td>
<td>1)CARE BBB- Stable (20-Jan-17)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Non-fund-based - ST-Forward Contract</td>
<td>ST</td>
<td>2.47</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE BBB- Stable (20-Jan-17)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CONTACT
Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 45251
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 0509
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33-4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhambudha, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691

CARE Ratings Limited