

ELGI Rubber Company Limited

September 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	202.56 (Reduced from 209.39)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A4+ (A Four Plus)	Assigned
Short Term Bank Facilities	33.25	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	240.81 (₹ Two Hundred Forty Crore and Eighty-One Lakhs Only)		
Fixed Deposit	12.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Medium Term Instruments	12.00 (₹ Twelve Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of ELGI Rubber Company Limited (ERCL) continue to be constrained by the moderate capital structure and debt coverage indicators, stretched liquidity with net losses incurred in the past years due to moderate performance of the subsidiaries and exposure of profit margins to volatility in raw material prices. The ratings however derive strength from vast experience of the promoters in the tyre reclaim and retreading business and established relationship with reputed customer profile.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability to improve PBILDT margins to over 10% on consistent basis and generate adequate accruals with profitable turnaround of operations in subsidiaries
- Timely realization of asset monetisation plans and reducing the debt levels

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large debt funded capex leading to moderation in capital structure with overall gearing above 2x
- Any continued losses in the subsidiaries due to extended impact of covid pandemic

Detailed description of the key rating drivers

Key rating weaknesses

Moderate capital structure and debt coverage indicators:

ERCL has total debt of Rs.246.76 crores as on March 31,2022 which comprises 56% of working capital and 40% of term loans and around 51.5% debt lies in subsidiaries. Due to losses incurred in past years the networth has been deteriorated to Rs.157.19 crores for the period ended March 31,2022 (PY : Rs.169.53 crores). The overall gearing moderated from 1.44x as on March 31,2021 to 1.57x as on March 31, 2022. The Promoters has infused funds in the past to support the operations and the unsecured loans and fixed deposits from promoters stood at Rs.7.45 crores as on March 31, 2022. Due to net losses incurred in the past with marginal cash profits the debt coverage indicators stood weak at Total Debt/ GCA of 155.59x as on March 31, 2022 (PY: 13.37x). The company have received land sales advance of around Rs. 9.6 crores in Q1FY23 and have also plans to sell assets in the next couple of years which are expected to reduce the debt levels and the timely monetization of the same is a key monitorable.

Moderate financial performance with losses in FY22 however improved in Q1FY23:

ERCL revenue is contributed 50.17% by its Indian entity and remaining by its subsidiaries in FY22. Weak financial performance of the foreign subsidiaries due to demand slowdown following covid pandemic, higher raw material prices, higher shipment charges due to shortage of vessels had resulted in net losses for the company in FY22. ERCL reported net loss of Rs.16.35 crore in FY22 as against PAT of Rs.1.07 crore in FY21 at consolidated level. However, the performance improved in Q1FY23 with better sales realization of its products which led to total income of Rs.107.56 crore as against Rs.82.16 crore in Q1FY22. The PBILDT margin improved to 8.03% in Q1FY23 (PY: 4.10%).

Profit margins exposed to volatility in raw material prices:

The key raw materials used by ERCL are Natural and Synthetic rubber, Carbon black, Steel coil and other rubber chemicals. The Natural rubber forms 25-30% of raw material consumption by value while carbon black forms 15-25% of consumption. The price of natural rubber of RSS-3 & RSS-4 grades have increased over the past two years post release of lockdown restrictions.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

High volatility in natural rubber prices is the result of international trade policies, fluctuations in demand and supply of natural rubber, fluctuation in oil prices and political changes. The PBILDT margins of the company had been volatile in the range of 3.93% to 6.55% over the past three years ended FY22.

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 re-treading and rubber reclaim business. His son Mr. Harsha Varadaraj, Whole time director has over 10 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, aged 61 years, 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.

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 5 customers forming 15.2% at consolidated level in FY22.

Liquidity: Stretched

Liquidity is stretched marked by lower accruals of Rs.1.59 crore in FY22 to the consolidated repayment obligations of Rs.35.2 crores for FY23. The company had managed the liquidity shortfall through funds from promoters and sale of non-core assets in the past. company had free cash balance of Rs.4.36 crore as on March 31, 2022. The company offers collection period of around 2 months to its customers while maintains inventory of 4-5 months. The company at standalone level has been sanctioned working capital limits of Rs.40 crore and the average utilization of the same stood around 80% for the past 12 months ended June 2022.

Analytical approach : Consolidated- In view of the significant investments and advances extended by the Elgi to its subsidiaries namely Borrachas e Equipamentos Elgi Ltda, Brazil (99.99% shares), Pincott International Pty Limited, Australia (100% shares), Elgi Rubber Company Limited, Kenya (99.99% shares), Elgi Rubber Company Limited, Sri Lanka (99.99% shares), Treadsdirect Limited, Bangladesh (100% shares), Elgi Rubber Company LLC, USA (100% shares), Elgi Rubber Company Holdings B.V., Netherlands (100%) shares, CARE has taken a consolidated view of the companies together for its analysis. The company had extended corporate guarantee to Rubber Resources B.V., Netherlands, Elgi Rubber Company Holdings B.V., Netherlands, Elgi Rubber Company LLC, USA for term loan and working capital limits.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Auto Ancillary Companies](#)

[Manufacturing Companies](#)

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 effective April 7, 2011. ELGI manufactures reclaim rubber, tread rubber, bonding gum and other rubber products used 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).

Brief Financials (₹ crore)-Consolidated	FY21 (A)	FY22 (A)	Q1FY23(UA)
Total operating income	357.54	410.48	106.70
PBILDT	35.1	18.07	8.03
PAT	1.07	-16.35	0.21
Overall gearing (times)	1.44	1.57	NA
Interest coverage (times)	1.46	1.17	2.51

A: Audited, UA; Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: ICRA has conducted the review on the basis of best available information and has classified ERCL as "Non cooperating" vide its press release dated June 07, 2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	May 2027	55.68	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE BB+; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	7.00	CARE BB+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	0.25	CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	3.00	CARE A4+
Non-fund-based - ST-Letter of credit		-	-	-	15.00	CARE A4+
Non-fund-based - LT-Standby Letter of Credit		-	-	-	114.88	CARE BB+; Stable
Fund-based - ST-EPC/PSC		-	-	-	15.00	CARE A4+
Fund-based - ST-Working Capital Limits		-	-	-	5.00	CARE A4+
Fixed Deposit		-	9%	3 years	12.00	CARE BB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	55.68	CARE BB+; Stable	-	1)CARE BB+; Stable (02-Nov-21)	-	-
2	Fund-based - LT-Cash Credit	LT	25.00	CARE BB+; Stable	-	1)CARE BB+; Stable (02-Nov-21)	-	-
3	Fund-based - LT-Working Capital Demand loan	LT	7.00	CARE BB+; Stable	-	1)CARE BB+; Stable (02-Nov-21)	-	-
4	Fund-based - ST-Bank Overdraft	ST	0.25	CARE A4+	-	1)CARE A4+ (02-Nov-21)	-	-
5	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A4+	-	1)CARE A4+ (02-Nov-21)	-	-
6	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A4+	-	1)CARE A4+ (02-Nov-21)	-	-
7	Non-fund-based - LT-Standby Letter of Credit	LT	114.88	CARE BB+; Stable	-	1)CARE BB+; Stable (02-Nov-21)	-	-
8	Fund-based - ST-EPC/PSC	ST	15.00	CARE A4+	-	1)CARE A4+ (02-Nov-21)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
9	Fixed Deposit	LT	12.00	CARE BB+; Stable	1)CARE BB+; Stable (22-Jun-22)	1)CARE BB+ (FD); Stable (02-Nov-21)	-	-
10	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT-Working Capital Demand loan	Simple
5	Fund-based - ST-Bank Overdraft	Simple
6	Fund-based - ST-EPC/PSC	Simple
7	Fund-based - ST-Working Capital Limits	Simple
8	Non-fund-based - LT-Standby Letter of Credit	Simple
9	Non-fund-based - ST-Bank Guarantee	Simple
10	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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